International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. 12, Issue 11, Nov 2024

https://ijecm.co.uk/

STRATEGIC CAPABILITIES AND PERFORMANCE

Robert M. Otiso

Postgraduate Student, School of Business, Economics & Tourism,

Kenyatta University, Kenya

robertotiso@yahoo.co.uk

Abstract

The paper addresses the significant challenges faced by the local manufacturing sector over the past five years due to the pandemic and shifts in the business environment, which have resulted in increased closures and downsizing, raising concerns about the sector's declining performance. Given the critical role of the industry in the economy, this study investigates how strategic capabilities impact the organizational performance of manufacturing firms registered in Nairobi County. The research focuses on resource, innovative, marketing, and leadership capabilities, drawing on the resource-based dynamic capabilities perspective and the balanced scorecard model. A descriptive research design was used, targeting 381 registered firms, with a sample of 195 firms surveyed. Data was collected through structured questionnaires, analyzed using SPSS software, and interpreted through descriptive and inferential analyses, including linear regression. Results revealed a moderate but significant relationship between resource capabilities and organizational performance, while innovative, marketing, and leadership capabilities had a positive and stronger influence. The study recommends that manufacturing firms invest in advanced resource planning, promote innovation, strengthen leadership through development programs, and leverage digital marketing and data analytics to enhance organizational performance.

Keywords; Strategic Capabilities, Organization Performance, Manufacturing Sector Innovation, Marketing Leadership, Resource

INTRODUCTION

In recent years, the business environment has been unstable, as evidenced by the high rate of business failure globally, with 75 percent of businesses in sub-Saharan Africa closing within their first three years of operation (Katare, Marshall, & Valdivia, 2021). Many of these businesses contribute significantly to their countries' economic development, particularly small and medium enterprises (SMEs), which are often the backbone of local economies. However, these SMEs face numerous challenges that hinder their growth and sustainability. Runtu and Ellitan (2021) emphasize the necessity for firms to adopt strategic approaches to remain operational and competitive over the long term. This struggle is particularly pronounced in middle- and lower-income countries, where globalization, coupled with the recent COVID-19 pandemic, has intensified financial pressures on businesses operating in these environments (Kristinae et al., 2020).

In an organization, capabilities embody the collective insights, knowledge, and activities that determine its ability to translate its vision and mission into desired outcomes through preplanned actions (Seyhan et al., 2017). Strategic capabilities, as Quaye and Mensah (2018) explain, are a complex, accumulated body of knowledge and skills that enable businesses to strategically manage and use their assets. These capabilities reflect a firm's proficiency in conducting business processes effectively through competent resource execution (Carraresi et al., 2016). They determine how well firms utilize resources to create value by exceeding consumer expectations, sustaining operations, adapting to changes, learning, and growing. Seyhan and colleagues further argue that these capabilities impact financial, customer, process, and operational outcomes.

Performance is a central yet contentious topic in management and business studies, with diverse interpretations across different fields such as aviation, healthcare, management, and computer science (Jenatabadi, 2015). This variation arises because performance metrics differ depending on an organization's core objectives and the resources committed to achieving success (Conţu, 2020). Organizational performance is generally understood as the assessment of a firm's capacity to meet its goals through measures of efficiency, effectiveness, or social criteria. In essence, performance reflects a firm’s ability to attain its objectives and optimize outcomes both qualitatively and quantitatively (Muñoz-Pascual, Curado, & Galende, 2019).

In the manufacturing sector, strategic capabilities are key to organizational performance. Manufacturing firms rely heavily on resources—financial, technical, and physical—and their ability to manage these resources effectively is crucial to maintaining competitiveness. High-quality products, successful marketing, and competitive pricing are essential factors that contribute to a manufacturer’s success. Additionally, manufacturers must meet the expectations of customers, governments, and society at large while minimizing their environmental impact (Al-Adwan, 2018). The Balanced Scorecard (BSC) is an effective tool that helps firms prioritize key factors necessary to achieve their vision and satisfy stakeholders, including customers and employees. According to Alhassan, Tela, and Gombe (2018), the BSC has been instrumental in aligning strategic goals with day-to-day operations, making it a widely used framework in research on organizational performance.

The study was performed in the manufacturing sector which is a huge contributor to the national GDP where by currently it has been experiencing a decline from 9.3% in 2016 to 7.2% in 2021 (KNBS, 2022). According to a recent National Economic Survey report by Sangwa and Muvunyi (2021) that 98 percent of businesses in Kenya are classified as small and medium-sized enterprises (SMEs), which generate up to 30 percent of new jobs annually. Within this landscape, Kenya's manufacturing sector is segmented into several key industries, including agro-processing, textiles, leather, building materials, mining and oil, iron and steel, and information and communications technology (KAM, 2018). In response to the critical role of these sectors, the Kenyan government has implemented strategic initiatives aimed at ensuring these industries contribute 15 percent to the nation's GDP by 2025 (KAM, 2018).

With research looking into the manufacturing sector in Kenya indicating that manufacturers are grappling with challenging environment characterized by rising operating costs, intense competition, rapid technological advancements, and shifting customer expectations. Compounding these issues is a limited supply of skilled workers and effective leaders. According to the Kenya Association of Manufacturers (2021), the industry is still in the process of recovering from the impacts of the COVID-19 pandemic. The report highlights several challenges, including inadequate regulatory oversight, unequal access to infrastructure and energy resources, and high transportation and logistics costs. Over the past decade, prominent manufacturers like Procter and Gamble and Reckitt Benckiser have exited the Kenyan market, citing the prohibitive cost of doing business (Mwasiaji, 2019). Other large manufacturers such as Telkom Kenya, East African Portland Cement and Stanbic Bank Kenya have committed to retrenching huge chunks of their workforce citing massive losses and persistent financial woes.

The study was considered relevant from the perspective of strategic capabilities as it contributes to a deeper understanding of how key capabilities, such as innovation, resource management, marketing, and leadership, drive performance in manufacturing firms in Nairobi County. These capabilities were selected for their inherent characteristics that explain how firms in the manufacturing sector are leveraging strategic capabilities to enhance competitiveness and performance. The study, therefore, sought to answer the question: How do strategic capabilities influence organizational performance in the manufacturing companies in Nairobi City County? These constructs address a conceptual gap in how capabilities have been operationalized to drive emphasizes capabilities during the implementation phase, this study shifts the focus to the pre-implementation stages of strategic planning, where these capabilities are critical for formulating effective strategies that align with organizational goals. By examining innovation, resources, marketing, and leadership, the study offers insights into how the strategic planning process, particularly the formulation of competitive strategies, relies on these capabilities to shape organizational success. The study is grounded in the Resource-Based View (RBV) and Dynamic Capability Theory, integrating these frameworks to demonstrate how strategic capabilities transform resources into competitive assets, fostering sustained performance in the manufacturing sector.

This research contributes to the body of knowledge in strategic capabilities and organizational performance by adopting a strategic capabilities framework to enhance organizational effectiveness and adaptability. It integrates various dimensions of strategic capabilities, expanding the understanding of their influence on performance in dynamic business environments. While existing literature highlights the link between strategic capabilities and performance, it often neglects how these capabilities can be strategically deployed within organizations. Tuah et al. (2021) viewed strategic capabilities through the lenses of innovation, marketing, and management, reporting that these capabilities improve export performance among Malaysian exporters, underscoring the need for a nuanced understanding of strategic capabilities. By focusing on the Kenyan manufacturing industry, a critical sector for policymakers due to its economic significance, the study addresses a gap in existing literature that often overlooks this context. The findings provided valuable insights into leveraging strategic capabilities to navigate challenges and seize opportunities within the sector, contributing to the development of effective policies and strategies that enhance resilience and competitiveness.

LITERATURE REVIEW

Theoretical and Conceptual Background

The authors established the study's foundation using two theories. Dynamic capabilities theory and Resource based theory. The Dynamic Capabilities (DC) theory, initially articulated by Teece (1990) and further refined by Teece and Pisano (1994), posits that organizations must possess the ability to adapt strategically to environmental changes to maintain competitiveness and long-term survival. The theory breaks down dynamic capabilities into three key components: sensing and shaping opportunities, seizing opportunities, and redeploying and reconfiguring the resource base. According to Teece (2007), leveraging these capabilities allows managers to enhance organizational, managerial, and technological processes, fostering innovation and adaptability to shifting market conditions. This continuous reorganization of resources and competencies, rather than relying on a singular approach, is essential for sustained competitiveness (Teece, 2012).

The Dynamic Capabilities (DC) theory highlights the importance of an organization's ability to adapt to changing environments and strategically deploy its resources for sustained success. Scholars such as Collis and Anand (2019) argue that the evolving nature of capabilities and processes makes them difficult to quantify, as they tend to be unique to each organization. However, Binti Samsudin and Ismail (2019) stress that dynamic capabilities are essential for survival in volatile environments, and empirical studies by Garbellano and Da Veiga (2019) and Fainshmidt et al. (2019) show a positive link between dynamic capabilities, performance, flexibility, and competitive advantage.

The theory contributes significantly to strategic management by illustrating how organizations can leverage knowledge to transform capabilities and assets into value-creating processes. In this study, the DC theory was applied to anchor marketing and innovation capabilities, demonstrating how businesses can enhance performance by focusing on the dimensions of sensing, seizing, and reconfiguring. This framework allows organizations to navigate complexities in their environments while optimizing performance and sustaining competitive advantage.

The study employed the postulate of the Resource-Based View (RBV) theory, first proposed by Penrose in 1959 and further developed by Wernerfelt in 1984. This theory emphasizes that an organization's resources significantly impact its performance and competitive advantage, highlighting the crucial role of effective resource allocation in achieving organizational objectives. Both tangible resources, such as physical assets and workforce, and intangible resources, including organizational culture, processes, and managerial capabilities, are essential for sustaining long-term competitive advantage (Hossain et al., 2021). While tangible resources are visible and replicable, intangible resources are unique and typically take longer to develop, making them more valuable (Assensoh-Kodua, 2019; Rauf, Kadir, & Kamariah, 2019).

In the RBV framework, capabilities are defined as the unique abilities that enable organizations to respond to environmental changes and pursue their goals (Imbambi, 2017; Roostika, 2019). This model is significant for managers as it guides strategic resource allocation to enhance performance and adapt to market trends (Collins, 2021). Despite its strengths, the RBV has faced criticism for its simplicity in examining the relationship between resources and performance, with some scholars arguing that it overlooks the influence of external environmental factors (Rouse & Daellenbach, 2009; Kenneth et al., 2011). However, proponents of the theory, such as Barney and Hesterly (2010), counter that possessing valuable, rare, and inimitable resources enhances performance by providing a competitive edge. Additionally, strategic marketing competencies, including market sensing and seizing, are vital for effective management adaptation (Roostika, 2019). In this study, the Resource-Based View (RBV) theory was applied to the resource and leadership variables. The RBV framework was used to highlight how organizational resources, including leadership capabilities, can be strategically leveraged to gain and sustain a competitive advantage. By emphasizing the unique role of leadership in effectively deploying and managing resources, the study explored how these elements contribute to enhanced organizational performance and long-term success.

Empirical Review

Capabilities within an organization encompass the collective knowledge, insights, and activities that enable it to achieve its vision and mission through planned actions (Seyhan et al., 2017). Strategic capabilities, defined as the accumulated knowledge and skills that allow businesses to manage and utilize their assets effectively, are crucial for executing business processes (Quaye & Mensah, 2018; Carraresi et al., 2016). They influence how well firms utilize resources and create value by meeting customer expectations while sustaining operations and adapting to changes. Strategic capabilities are also able to impact financial, customer, process, and operational outcomes. They also contribute to an organization's performance distinctiveness and can be categorized based on industry context, with key types including project management, networking, relationship management, and supplier network management for fast-moving firms (Bai, Um, & Lee, 2022; Evanthi & Azhar, 2023).

Strategic capabilities are crucial for enhancing organizational performance across various sectors. Tuah et al. (2021) highlights that capabilities like innovation, marketing, and management significantly boost export performance among Malaysian exporters. In Tunisia, Zgarni and Lamia (2019) identified key capabilities, including managerial, technological, and cost-focused elements, while Chepkole and Deya (2019) in Kenya pointed to financial resources and human resource development as essential factors. Taka (2021) emphasizes that manufacturers must develop their capabilities to meet customer demands and drive product innovation. These capabilities—particularly in resource management, leadership, and marketing—are vital for sustained competitiveness in the manufacturing sector (Ogolla & Kisingu, 2023).

Strategic Capabilities

Innovation capabilities (ICs), as described by Lawson and Samson (2001), refer to a firm's ability to continuously transform knowledge and innovative ideas into new products, processes, and systems, a concept further reinforced by Guan and Ma (2003), who highlight ICs as deeply entrenched, tacit assets essential for combining innovative behaviors, strategic capabilities, and technological processes to drive competitive advantage. Hanaysha et al. (2022) found a strong link between SME sustainability and innovation capabilities, highlighting process and marketing innovation as key to sustainability, though the study did not explore other strategic capabilities. Ekweli and Hamilton (2020) found a positive correlation between organizational agility, product innovation, and performance in Nigeria’s financial sector, but their study focused on financial firms, leaving a gap for research on manufacturing firms.

Resources are vital assets that businesses transform into valuable goods for customers, and a firm's resource capabilities are crucial for achieving strategic goals; effective management must align operations with the available resources' capabilities (Padilla & Abacan, 2023; Kabue & Kilika, 2016).Padilla and Abacan (2023) describe resource capabilities as the skills and knowledge possessed by a firm’s workforce, with Collins (2021) noting that financial capability also plays a significant role in overall performance. Li et al. (2020) found that while human and social/customer capital positively impact the operational efficiency of small businesses, sufficient financial resources are essential for leveraging these intangible assets effectively.

Leadership capability, as defined by Hitt et al. (2013), involves a leader’s ability to foresee, visualize, and motivate others to achieve strategic goals. In today's dynamic business environments, leaders must adapt strategies, introduce new models, integrate digital technologies, and drive organizational change to succeed, as noted by Tikas (2023) and Chummun and Nleya (2022). Effective leaders also inspire employees to achieve challenging goals, according to Lisdiono et al. (2022). Joseph et al. (2021) examined the impact of leadership qualities on the sustainability of faith-based organizations in Nigeria, finding that leaders with strategic, innovative, and management skills significantly enhance operational performance. The study concluded that FBOs should prioritize hiring leaders who can identify technical expertise, maintain flexibility, and empower others, while also focusing on acquiring talented and knowledgeable employees to boost sustainability—a framework the current study adapts for profit-oriented firms.

Marketing capability confers to an organization’s internal competencies when it comes to deploying organizational resources towards the attainment of desired market outcomes (Eisend, Evanschitzky, & Calantone, 2016). Hoque, et al., (2021) consider marketing capabilities to include the accumulation of market information that can advance strategic goals. Marketing capabilities enable organizations to align their resources effectively and meet market goals (Eisend et al., 2016), with strong marketing skills allowing firms to better understand and fulfill customer needs (Patel et al., 2021). Overall, strategic capabilities including innovation, leadership, resource management, and marketing are essential for organizations to thrive in today's competitive world.

The authors focused on the critical role of strategic capabilities in enhancing performance within manufacturing firms. Given the competitive landscape and evolving market demands, manufacturers must cultivate capabilities such as innovation, resource management, and leadership to achieve operational excellence. These strategic capabilities enable firms to effectively utilize their resources, respond to customer needs, and drive product innovation, ultimately leading to improved performance outcomes

METHODOLOGY

Research Design

The study employs a descriptive research design, which focuses on planning, gathering, and evaluating data to address the research problem (Sekaran & Bougie, 2016). This design is particularly suitable for examining the connection between SMEs' performance in the manufacturing industry and their strategic competencies, as it allows for the identification and clarification of key components and their relationships (Blumberg, Cooper, & Schindler, 2014). Furthermore, the research utilizes quantitative analysis techniques that align with the descriptive design, enabling a robust examination of the data to reveal meaningful insights into the dynamics of these variables.

Research Data

The study relied on primary data obtained from respondents to investigate the relationship between SMEs' performance in the manufacturing sector and their strategic competencies. A structured 5-point Likert scale questionnaire was developed, operationalizing the study constructs based on insights from the reviewed literature. The scale for the independent variables required respondents to indicate the extent to which strategic competencies were utilized, ranging from 1 (none at all) to 5 (very high extent) and was operationalized using seven indicators. The dependent variable utilized the scale of 1 on no extent at all, and 5 for very high extent using six indicators for the organizational performance included in the research instrument. After evaluating validity and reliability, construct reliability was deemed acceptable, with Cronbach’s alpha values ranging from 0.704 to 0.798 across all measures. The questionnaires were administered through a drop-and-pick method, allowing respondents a two-week timeframe to complete the survey after being introduced to the instrument for better understanding. This approach yielded a response rate of 59.49% level.

Research Population

The study was conducted in the manufacturing sector, focusing on registered manufacturing companies in Nairobi County, particularly those classified as large and medium-sized under the Kenya Association of Manufacturers (KAM). The unit of analysis was the registered manufacturing companies, comprising a total population of 381 registered firms.

Table 1. Target population

Category	Number of Firms	Percentage
Building Mining and Construction	22	5.77%
Chemical and Allied	45	11.81%
Leather and Footwear	4	1.05%
Energy, Electrical & Electronics	26	6.82%
Fresh produce	2	0.52%
Timber, wood and furniture	15	3.94%
Paper & Board	43	11.29%
Motor Vehicle Assemblers & Accessories	18	4.72%
Pharmaceutical & Medical Equipment	28	7.35%
Textile & Apparel	15	3.94%
Plastic & Rubber	31	8.07%
Metal & Allied	32	8.39%
Service & Consultancy	49	12.86%
Food & Beverages	51	13.39%
Population	381 firms	

The respondents were senior management representatives from these companies, including one individual from each of the following functional units: strategy, operations, finance, human resources, procurement, and supply chain management.

FINDINGS

Respondents' characteristic

The survey respondents included managing directors, finance managers, operations managers, and marketing managers from firms registered under the Kenya Association of Manufacturers. The majority of respondents were marketing managers, accounting for 50.9%, followed by finance managers at 29.5%, managing directors at 12.5%, and operations managers at 5.4%. Most participants had been with their firms for 7-10 years (45.5%), followed by those with 4-6 years of experience (44.6%), indicating a workforce with significant industry knowledge. Regarding annual income, 58.9% of the firms generated between 1 million to 5 million, reflecting solid financial performance. In terms of workforce size, 54.5% of the firms had 51-100 employees, indicating that a majority of the surveyed companies operate on a moderate scale within the manufacturing sector**.**

Descriptive statistics and variable correlations

The characteristics of the study variables among the manufacturing firms were summarized using descriptive statistics, including the mean and standard deviation. Primary data collected through a 5-point Likert scale was used to compute the mean and standard deviation for each variable, and Pearson correlation coefficients were calculated to show how the variables correlated with one another and with the dependent variable. The descriptive analysis of the study variables revealed generally positive perceptions across all the strategic capabilities measured. Respondents indicated a relatively high level of resource, innovative, marketing, and leadership capabilities within their firms, as well as a favorable view of overall performance showing positive results in both financial and non-financial areas across the firms. The correlation analysis showed a significant positive relationship among all the variables

Table 2. Variable Characteristics and Correlations

Variable	**α score**	**Mean**	**Std. Dev**	**Correlation**				
				1	2	3	4	5
Resource capability	0.747	3.9460	.7848	1				
Innovative Capabilities	0.798	3.8491	0.8273	.499**	1			
Marketing Capabilities	0.765	3.9344	0.7405	.400**	-164	1		
Leadership Capabilities	0.738	3.9102	0.8156	.410**	.333**	.458**	1	
Performance	0.704	3.9276	0.8438	.485**	.405**	.470*	.585**	1

**p<0.05

Effect of Strategic Capabilities

The study constructs were assessed with of the independent variables in relation to the dependent variable. The multiple regression output is represented in table 3 where the regression results revealed a significant positive relationship between various capabilities and organizational performance of manufacturing firms.

Table 3. Regression Results

Parameter	**value**	**p- value**	**Observation**
R	.668a		Effect of strategic capabilities on performance is significant at 44.6% variation
R^2	.446		
Adjusted R^2	.421		
F	17.333	0.00	Model fit good
Residual Sum of Squares	14.403		
Mean Square Residual	2.903		
(Constant)	.018	.970	
βResource capabilities	.153	.188	Not statistically significant
βInnovative capabilities	.187	.047	Statistically significant
βLeadership capabilities	.247	.014	Significant positive effect
βMarketing capabilities	.404	.001	Significant positive effect

The results of the study reveal significant insights into the effect of strategic capabilities on organizational performance in manufacturing firms. The R value of 0.668 indicates a strong correlation between strategic capabilities and performance. The R^2 value of 0.446 further demonstrates that 44.6% of the variation in organizational performance can be explained by the strategic capabilities analyzed in this study, suggesting a substantial effect.

Among the individual capabilities the first was to determine the effects of resource capabilities on organizational performance in manufacturing firms. The regression analysis from table 2 shows results where the study revealed a non-significant effect on organizational performance (β= 0.153, $p < 0.001 < .005$). The findings indicated a moderate aggregate mean of 3.9460 which suggests that the strategies implemented for knowledge management, employee retention, skills enhancement, and mentorship/coaching are generally well-perceived by respondents. Although the current study did not find resource capabilities to be statistically significant, previous research has shown a strong connection between resource capabilities and organizational performance. Wajdi et al. (2020) found that human resource capabilities and technology positively influence performance. Similarly, Daniel (2020) demonstrated that training enhances employee skills, knowledge, productivity, and commitment. Asghar et al. (2023) also highlighted that managerial skills and technology adaptation significantly boost process and product innovation, ultimately improving firm productivity and performance.

The second capability used in the study was to investigate the effects of innovative capabilities on organizational performance in the manufacturing firms in Nairobi City County. The findings from the analysis show a positive correlation between innovative capabilities and organizational performance. The regression analysis revealed that the unstandardized coefficient ($\beta = 0.187$, $p = 0.047$) suggests a statistically significant effect, indicating that each one-unit increase in innovative capabilities leads to a 0.187-unit increase in performance. Key indicators such as process innovation, product innovation, and investment in predictive analytics performed at a moderate to good level, further highlighting the positive relationship between innovative capabilities and organizational performance. Previous research, including a study by Rajapathirana and Hui (2018), shows a positive relationship between innovation capabilities, innovation efforts, and firm performance, particularly among senior managers in insurance companies. This suggests that effectively managing innovation capabilities can enhance innovation outcomes and overall organizational performance. Saunila (2020), emphasizes a consistent positive relationship between innovation capability and various dimensions of firm performance in small businesses.

The third construct utilized in the study was able to determine the effect of marketing capabilities on organization performance in the manufacturing firms in Nairobi City County. The analysis revealed a significant positive correlation between marketing capabilities and organizational performance ($r = 0.585$, $p < 0.01$), with a unstandardized coefficient of $\beta = 0.404$ and a standardized coefficient of 0.341. This indicates that a one-unit increase in marketing capabilities is associated with a 0.404-unit increase in organizational performance. The variable was conceptualized by focusing on the critical aspects of marketing capabilities that enable organizations to adapt to market trends and improve overall performance. Previous research supports these findings; for instance, studies by Duah et al. (2024) and Afriyie et al. (2019) highlight that effective marketing capabilities significantly enhance firm performance, enabling organizations to understand market dynamics, allocate resources efficiently, and maintain a competitive advantage through strategic management of marketing initiatives.

The fourth construct of the study focused on evaluating the effect of leadership capabilities on organizational performance in manufacturing firms in Nairobi City County. The correlation analysis revealed a significant positive correlation between leadership capabilities and organizational performance ($r = 0.470$, $p < 0.01$). The regression analysis indicated an unstandardized coefficient of $\beta = 0.247$, with a statistically significant relationship at $p = 0.014$, illustrating that an increase in leadership capabilities is associated with improved organizational performance. The variable was conceptualized by focusing on critical aspects of leadership capabilities that enhance firm value. Previous research supports these findings, highlighting that modern leadership practices significantly impact innovation and performance. Studies by Ahmed and Rehman (2020) emphasize the need for integrating diverse leadership styles, while Akparep et al. (2019) demonstrate that democratic leadership improves organizational performance, reinforcing the strong connection between leadership style and organizational success.

DISCUSSION

The conceptualization of the study was anchored on four types of strategic capabilities. The findings reported indicated that these capabilities had varying degrees of effect on performance of SMEs in the manufacturing sector in Kenya. This section discusses each of the findings on the four types of strategic capabilities with a view to identifying the emerging implications for theory and practice.

The first construct was focusing on determining the effects of resource capabilities on organizational performance in manufacturing firms. The findings indicated a moderate average perception of organizational practices related to employee development and management, suggesting varied views among respondents on the effectiveness of these initiatives. The indicators suggest a moderate extent of resource capabilities in the manufacturing firms. While there is active engagement in knowledge management, employee retention, and skill development, the overall aggregate score reflects a commitment that is significant but not exceptionally high, indicating room for improvement in these areas. The analysis reveals that resource capabilities within the surveyed firms are implemented to a moderate extent, influenced significantly by the respondents' years of experience, with 45.5% having spent 7-10 years in their organizations. This substantial tenure indicates a depth of industry knowledge that could enhance knowledge management and employee retention. However, given that 54.5% of the firms are of moderate size, it suggests that while these organizations have the potential for effective resource utilization, they may not be fully capitalizing on their experienced workforce to drive strategic initiatives and optimize performance.

The study assessed the effect of innovative capabilities, marketing capabilities, and leadership strategies on organizational performance in manufacturing firms in Nairobi City County. The analysis revealed moderate variability across all three capabilities, with marketing capabilities demonstrating the highest correlation with organizational performance ($r = 0.585$, $p < 0.01$). This suggests that while all three capabilities are positively related to performance, marketing emerges as the most significant driver. The respondents' characteristics highlighted a strong support for innovative leadership and marketing capabilities. With 50.9% of the respondents being marketing managers and many having significant industry experience (7-10 years), their expertise is crucial for driving innovation. The financial strength of firms, with 58.9% generating annual incomes between 1-5 million, suggests they have the resources to invest in these capabilities, enhancing organizational performance

In this study, strategic capabilities were conceptualized as the collective knowledge, skills, and insights that enable organizations to translate their vision and mission into concrete actions, ultimately driving organizational performance. This conceptualization is supported by Seyhan et al. (2017), who describe strategic capabilities as the abilities that allow firms to effectively implement their objectives through preplanned activities. Similarly, Quaye and Mensah (2018) emphasize that these capabilities are a complex body of knowledge and skills that allow firms to strategically manage their assets. The findings of this study align with the Resource-Based View (RBV), which argues that unique capabilities serve as key drivers of competitive advantage. Additionally, the Dynamic Capability Theory highlights the importance of continuously reconfiguring these capabilities to respond to changing environments, further supporting the notion that firms must adapt their strategic capabilities to achieve sustained performance improvements. The objectives indicators of innovative capabilities like establishment of a culture of product innovation, emphasis on process improvements, and the integration of technology—demonstrate that organizations are actively pursuing strategies to enhance their performance. The findings align with the Dynamic Capability Theory, emphasizing the need for organizations to reconfigure their resources to adapt and thrive in changing environments (Teece, 2007), while the Balanced Scorecard framework supports the examination of how these capabilities impact various performance dimensions, including financial outcomes, customer satisfaction, and internal processes (Kaplan & Norton, 1996). Supporting literature reinforces the findings of this study where Rajapathirana and Hui (2018) found a positive relationship between innovation capabilities and firm performance, indicating that effective management of innovation can lead to improved organizational outcomes. Duah et al. (2024) and Afriyie et al. (2019) emphasized the critical role of marketing in enhancing organizational performance, particularly in understanding market dynamics and leveraging effective distribution and promotional strategies.

The study therefore set out to examine the effects of strategic capabilities particularly leadership and marketing capabilities on the performance of manufacturing firms in Nairobi City County. Through the analysis, it was established that both leadership and marketing capabilities have a statistically significant positive impact on organizational performance. The findings are consistent with the theoretical foundations that emphasize the importance of dynamic capabilities in enabling organizations to adapt to changing market conditions and improve overall performance. The adjusted R^2 value of 0.421 indicates that the strategic capabilities assessed explain a substantial proportion of the variance in firm performance, affirming their critical role in driving business success. By fostering strong leadership and enhancing marketing strategies, firms can not only align their resources to meet market demands but also create sustainable competitive advantages. This research contributes to the ongoing discourse on strategic capabilities by demonstrating that these capabilities are vital in ensuring that firms remain competitive, adaptable, and innovative in today's dynamic business environment.

CONCLUSION

This study highlights important insights about how strategic capabilities impact the performance of manufacturing firms in Nairobi City County. First, while resource capabilities didn't show a strong effect on performance, this indicates that other factors should be considered to improve outcomes. Even though the statistical significance was weak, there are meaningful insights that suggest exploring additional performance indicators could be beneficial. The findings confirm that innovative capabilities play a positive role in enhancing organizational performance. Firms that focus on innovation processes, use predictive analytics, and encourage a culture of product improvement tend to see better results. The research also points to the value of marketing capabilities, showing that effective use of market information helps firms understand and respond to customer needs more effectively. While leadership capabilities do influence performance, they aren't the only factors at play; firms benefit from leaders who actively engage with their teams and seek their input.

To boost organizational performance, manufacturing firms should consider investing in advanced resource planning systems, even if the current impact isn't strong. It's also important to foster a culture of innovation by hosting workshops and rewarding creative ideas. Strengthening leadership through development programs and involving employees can create a more dynamic work environment. Finally, future research should look into other factors that influence performance across different sectors and include firms from various regions. This approach will help broaden our understanding of what drives success in the manufacturing industry.

ACKNOWLEDGMENT

Author Contributions: Conceptualization, Methodology, Data Collection, Formal Analysis, Writing—Original Draft Preparation, Writing—Review and editing by authors. All authors have read and agreed to the published the final version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to privacy.

Conflicts of Interest: The authors declare no conflict of interest.

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