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Managerial Capacity and Financial Performance of Private Hospitals in Wajir Town, Kenya

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Abstract: *Managerial capacity is an important but often overlooked driver of financial performance in private healthcare organisations, particularly where resources are limited. This study examined the effect of managerial capacity, measured through planning skills, leadership and decision-making, on the financial performance of private hospitals in Wajir Town, Kenya, where performance was assessed through profitability, cost efficiency and financial sustainability. The study adopted a descriptive cross-sectional survey design and a census approach covering 56 registered private health facilities, yielding 161 usable questionnaires (95.8% response rate). Data were analysed using descriptive statistics, Pearson correlation and multiple linear regression. Managerial capacity recorded a composite mean of 3.49 (SD = 0.725) and the strongest bivariate association with financial performance ($r = .502$, $p < .01$). Controlling for resource availability, government support, and innovation and technological adoption, managerial capacity remained the strongest significant positive predictor of financial performance ($B = 0.309$, $\beta = .316$, $t = 4.467$, $p < .001$). The findings suggest hospitals can strengthen financial outcomes not only by acquiring more resources but also by improving managers' planning, decision-making and responsiveness to financial challenges. The study recommends continued investment in leadership development and financial decision-making capability among hospital managers.*

Keywords: financial performance, Kenya, managerial capacity, private hospitals, strategic planning, Wajir Town

I. Introduction

Private hospitals operate in an environment where financial performance matters for both organisational survival and continuity of healthcare services. Unlike public facilities, private hospitals depend substantially on internally generated revenue to meet operating expenses, maintain equipment, pay staff and invest in future growth. At the same time, they face rising costs, changing patient expectations, competition and regulatory pressures. These conditions make management decisions particularly important because even hospitals with similar resources may achieve different financial outcomes depending on how those resources are planned, coordinated and used.

Strategic planning provides a framework through which organisations set priorities, allocate resources and respond to changes in their operating environment. In healthcare, this process has become increasingly important as hospitals deal with technological change, financial pressures and the need to maintain service quality. Bryson [1] argues that strategic planning helps organisations align their capabilities with changing environmental conditions, while Lega, Prenestini and Spurgeon [2] link effective management and planning with organisational sustainability in healthcare.

Within strategic planning, managerial capacity deserves particular attention. Managers are responsible for turning plans into practical decisions. Their capacity includes leadership, planning, monitoring, financial judgement and the ability to respond to operational problems. The Resource-Based View (RBV) suggests that organisational capabilities can themselves constitute valuable resources that contribute to sustained performance [3]. From this perspective, a capable management team may improve performance even when a hospital operates in a resource-constrained environment.

The issue is especially relevant in Wajir Town. Private health facilities in the town operate within an arid and comparatively underserved setting characterised by infrastructural constraints, shortages of skilled personnel and limited technological capacity. The original study from which this manuscript is drawn identified these conditions as important challenges facing private hospitals and argued that context-specific evidence was limited. The study therefore examined strategic planning practices and financial performance, with managerial capacity forming one of four specific dimensions.

Although previous Kenyan studies have linked strategic leadership and management capability with organisational performance, much of the available evidence has focused on relatively better-resourced urban settings such as Nairobi and Mombasa. Ali [4], for example, reported a significant relationship between strategic leadership and performance among private hospitals in Mombasa County, while Ngeche and Kaluyu [5] found that strategic and adaptive leadership supported sustainability and competitive advantage. However, less is known about whether managerial capacity remains an important predictor of financial performance in private hospitals operating in marginalised areas.

This manuscript addresses that gap by isolating the managerial-capacity dimension of the wider study and examining its relationship with financial performance among private hospitals in Wajir Town. The objective was to assess the effect of managerial capacity on the financial performance of private hospitals in Wajir Town, Kenya.

II. Literature Review

2.1 Resource-Based View Theory

The study was anchored primarily on the Resource-Based View Theory. Barney [3] explains that organisations can achieve stronger performance when they possess and effectively deploy resources that are valuable, rare, difficult to imitate and difficult to substitute. Although financial resources, equipment and human resources are obvious examples, organisational capabilities can also create value. Managerial expertise is one such capability because it influences how other resources are acquired, allocated and used.

For private hospitals, managerial capacity can therefore be understood as an internal organisational resource. Managers decide how budgets are prioritised, how staff and equipment are deployed, how financial problems are addressed and how strategic plans are translated into daily operations. In a setting such as Wajir Town, where resources may be relatively constrained, the ability to use available resources wisely may be particularly important.

2.2 Managerial Capacity and Financial Performance

Managerial capacity refers in this study to the skills, competencies, experience and leadership abilities that managers use to plan, implement and evaluate organisational strategies. The measurement used in the study covered three broad areas: planning skills, leadership and decision-making. These capabilities are expected to influence financial performance because managers shape expenditure decisions, resource allocation, operational priorities and responses to financial challenges.

Ali [4] found that strategic leadership improved performance in private hospitals in Mombasa County by strengthening financial decision-making and operational management. Ngeche and Kaluyu [5] similarly reported that strong strategic and adaptive leadership supported sustainability and competitive advantage through effective coordination and planning. Kirigi, Kinuthia and Muigai [6] also found that managerial capabilities were associated with innovation adoption and organisational outcomes in Kenyan hospitals.

The existing literature therefore points towards a positive relationship between managerial capacity and organisational performance. However, the present study adds a different geographical context. Wajir Town presents a setting in which managerial decisions are made under resource and infrastructural constraints. The question is consequently not only whether managers are capable, but whether differences in managerial capacity are reflected in measurable differences in financial performance.

2.3 Research Gap

The literature reviewed for the parent study suggests three related gaps. First, empirical work on strategic management and hospital performance in Kenya has tended to concentrate on larger urban centres. Second, relatively little attention has been given to private hospitals in marginalised and arid regions. Third, managerial capacity is often discussed as part of broader strategic management rather than examined as a distinct predictor of financial performance. This manuscript responds to the third gap within the specific context of Wajir Town.

III. Methodology

3.1 Research Design and Study Area

The study adopted a descriptive cross-sectional survey design. Data were collected at one point in time to capture prevailing strategic planning practices and financial performance among private health facilities in Wajir Town. The design allowed the study to examine associations among the variables without manipulating the operating conditions of the facilities.

The study area was Wajir Town in northeastern Kenya. The setting was selected because private health facilities operate in an environment characterised by infrastructural limitations, high operating costs, staffing challenges and constrained technological capacity. These conditions provided a relevant context for examining whether managerial capacity is associated with financial performance.

3.2 Population, Sampling and Respondents

The target population consisted of all 56 registered private health facilities in Wajir Town listed in the Kenya Master Health Facility List (2024). The facilities comprised 21 hospitals, 11 nursing homes and 24 medical centres. A census approach was used because the number of facilities was manageable and the intention was to cover the entire population.

Up to three respondents were targeted from each facility based on their involvement in management, operations and financial or service-delivery decisions. These included hospital administrators or managers, operations or finance officers, and clinical or departmental heads. A total of 161 usable questionnaires were returned from the 168 questionnaires targeted, giving a response rate of 95.8%. The high response rate provided broad coverage of the study population, with all 56 facilities represented in the final dataset.

3.3 Measurement of Variables

Managerial capacity was measured using five Likert-scale statements covering leadership, planning and monitoring, timely decision-making, ability to handle financial challenges, and the contribution of strategic decisions to financial stability. Responses were recorded on a five-point scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree.

Financial performance was measured using five Likert-scale statements addressing revenue growth, ability to meet operational expenses, cost control, financial sustainability and perceived improvement in profitability. For the purpose of this manuscript, the analysis focuses specifically on the relationship between the managerial-capacity composite score and the financial-performance composite score.

3.4 Reliability and Data Analysis

Internal consistency was assessed using Cronbach's Alpha. The managerial-capacity scale contained five items and recorded an alpha coefficient of 0.850, while the financial-performance scale also contained five items and recorded an alpha coefficient of 0.841. Both values were above the 0.70 threshold used in the study, indicating acceptable internal consistency.

Data were coded and analysed using Microsoft Excel. Descriptive statistics were used to summarise the managerial-capacity items and financial-performance scores. Pearson product-moment correlation was used to assess the strength and direction of the bivariate relationship. Multiple linear regression was then used to determine the independent contribution of managerial capacity while controlling for resource availability, government support, and innovation and technological adoption.

IV. Results

4.1 Respondent and Facility Profile

Table 1 presents the distribution of respondents and facilities by category, respondent position and years of operation.

Table 1. Respondent and Facility Profile

Characteristic	Category	n	%
Facility category	Medical Centre	72	44.7
	Hospital	57	35.4
	Nursing Home	32	19.9
Position	Administrator	51	31.7
	Owner	47	29.2
	Manager	41	25.5
	Other	22	13.7
Years of operation	Less than 2 years	26	16.1
	2–5 years	41	25.5
	6–10 years	55	34.2
	Above 10 years	39	24.2

The respondents were drawn across the three facility categories in proportions reflecting the composition of the target population. Administrators constituted the largest group of respondents (31.7%), followed by owners (29.2%) and

managers (25.5%). In terms of facility age, 34.2% had operated for 6–10 years, while 24.2% had operated for more than 10 years. This indicates that a substantial proportion of the facilities had enough operating experience to provide informed views on management practices and financial performance.

4.2 Managerial Capacity

Table 2. Descriptive Statistics for Managerial Capacity

Managerial-capacity statement	Mean	SD
Hospital management has strong leadership skills.	3.50	0.874
Managers effectively plan and monitor hospital activities.	3.46	0.929
Decision-making in the hospital is timely and effective.	3.50	0.930
Managers are capable of handling financial challenges.	3.59	0.898
Strategic decisions contribute to financial stability.	3.39	0.956
Composite managerial capacity	3.49	0.725

Managerial capacity recorded a composite mean of 3.49 (SD = 0.725), the highest composite mean among the four strategic planning dimensions examined in the parent study. The strongest item was managers' ability to handle financial challenges (M = 3.59, SD = 0.898). Leadership skills and timely decision-making each recorded a mean of 3.50. The lowest score was for the contribution of strategic decisions to financial stability (M = 3.39, SD = 0.956). Overall, the results suggest that respondents viewed managerial capacity relatively positively, although the responses also indicate room for improvement in translating strategic decisions into financial stability.

4.3 Financial Performance

Table 3. Descriptive Statistics for Financial Performance

Financial-performance statement	Mean	SD
The hospital has experienced revenue growth in recent years.	3.37	0.900
The hospital is able to meet its operational expenses.	3.35	0.876
Operational costs are effectively controlled.	3.40	0.917
The hospital maintains financial sustainability.	3.42	0.863
Strategic planning practices have improved profitability.	3.32	0.977
Composite financial performance	3.37	0.709

Financial performance recorded a composite mean of 3.37 (SD = 0.709). Financial sustainability had the highest item mean (M = 3.42), followed by cost control (M = 3.40). The lowest mean was recorded for the statement that strategic planning practices had improved profitability (M = 3.32). The overall pattern indicates a moderate-to-fairly positive perception of financial performance across the facilities.

4.4 Relationship between Managerial Capacity and Financial Performance

Table 4. Correlation between Managerial Capacity and Financial Performance

Variables	r	Significance	Interpretation
Managerial capacity – Financial performance	0.502	$p < .01$	Positive, statistically significant relationship

Pearson correlation analysis showed a positive and statistically significant relationship between managerial capacity and financial performance ($r = .502$, $p < .01$). The coefficient indicates a moderate positive association: facilities reporting stronger managerial capacity also tended to report better financial performance. Importantly, correlation does not by itself establish causation; the regression analysis was therefore used to assess the independent contribution of managerial capacity.

4.5 Regression Results

Table 5. Regression Results for Financial Performance

Predictor	B	Std. Error	Beta	t	p-value
Constant	0.760	0.287	—	2.652	0.009
Resource availability	0.259	0.074	0.262	3.524	0.001
Managerial capacity	0.309	0.069	0.316	4.467	<0.001
Government support	0.032	0.065	0.033	0.496	0.620
Innovation & technology	0.209	0.072	0.207	2.900	0.004

The multiple regression model was statistically significant overall, $F(4,156) = 24.198$, $p < .001$, and explained 38.3% of the variance in financial performance ($R^2 = .383$; adjusted $R^2 = .367$). Within the model, managerial capacity had a positive and statistically significant coefficient ($B = 0.309$, $\beta = .316$, $t = 4.467$, $p < .001$). Holding the other predictors constant, a one-

unit increase in the managerial-capacity score was associated with an estimated 0.309-unit increase in the financial-performance score.

The standardised coefficient is particularly useful for comparing the predictors because the variables were measured on the same general Likert-based scale but represent different constructs. Managerial capacity recorded the largest standardised beta (β = .316), making it the strongest individual predictor in the model. Resource availability followed (β = .262), then innovation and technological adoption (β = .207). Government support was not statistically significant (β = .033, p = .620).

V. Discussion

The central finding of this manuscript is that managerial capacity was positively and significantly associated with the financial performance of private hospitals in Wajir Town. The bivariate relationship was moderate (r = .502), and managerial capacity remained significant after the other strategic planning dimensions were controlled for. This consistency between the correlation and regression results strengthens the case that managerial capability is an important factor in explaining differences in reported financial performance across the facilities.

The finding is consistent with the Resource-Based View. A hospital does not benefit simply from possessing resources; it also needs the organisational capability to deploy those resources effectively. Managers determine priorities, coordinate staff, monitor performance and respond to financial pressures. In a resource-constrained environment, these capabilities may be particularly valuable because management has less room to compensate for poor decisions through additional financial or physical resources.

The result also agrees with the Kenyan evidence reviewed in the parent study. Ali [4] reported that strategic leadership improved performance among private hospitals in Mombasa County, while Ngeche and Kaluyu [5] linked strong strategic and adaptive leadership to sustainability and competitive advantage. Kirigi, Kinuthia and Muigai [6] likewise reported positive implications of managerial capabilities for innovation adoption and organisational outcomes. The present findings extend this general pattern to private healthcare facilities in Wajir Town.

The descriptive results add an important nuance. Managerial capacity had the highest composite mean among the independent variables, but the mean was 3.49 rather than being overwhelmingly high. In particular, the item on strategic decisions contributing to financial stability recorded a lower mean of 3.39. This suggests that managers may generally be perceived as capable, while the translation of management decisions into stronger financial outcomes is not always straightforward. The significant regression coefficient nevertheless indicates that differences in managerial capacity matter when other factors are considered.

The finding should also be interpreted alongside the overall model. The four strategic planning dimensions jointly explained 38.3% of the variation in financial performance. Managerial capacity was the strongest individual predictor, but it was not the only relevant factor. Resource availability and innovation and technological adoption also made statistically significant contributions. This supports a more balanced interpretation: capable managers are important, but financial performance in private hospitals is shaped by a combination of organisational resources, management capability, technology and the external environment.

Because the study used a cross-sectional design and perceptual measures of financial performance, the results should not be interpreted as proof that increasing managerial capacity will necessarily cause a particular increase in profitability. The regression results indicate a statistically significant association and independent predictive contribution within the observed sample. Longitudinal studies using objective financial records would be useful for testing whether improvements in managerial capacity lead to measurable changes in financial outcomes over time.

VI. Conclusion

The study concludes that managerial capacity is an important predictor of financial performance among private hospitals in Wajir Town. Hospitals in which management was perceived to have stronger leadership, planning, monitoring, decision-making and financial problem-solving capabilities tended to report stronger financial performance. Managerial capacity had the strongest standardised regression coefficient among the four strategic planning dimensions examined, suggesting that management capability may be a particularly important organisational lever in the study context.

The conclusion is not that management capacity operates independently of resources, technology or the policy environment. Rather, the findings indicate that managerial capability is an important part of the combination of factors

associated with financial performance. For private hospitals operating under resource constraints, strengthening management capability may offer a practical avenue for improving the use of existing resources while longer-term investments in infrastructure, technology and financing are pursued.

Recommendations

First, private hospital owners and administrators in Wajir Town should prioritise continuous leadership development for managers. Training should go beyond general leadership and include budgeting, financial analysis, cost control, performance monitoring and strategic decision-making.

Second, hospitals should strengthen routine planning and performance-monitoring systems. Managers should have clear financial and operational targets and should review performance regularly so that emerging problems can be identified and addressed before they become more costly.

Third, management development should focus on the practical translation of strategic decisions into financial outcomes. The relatively lower score for the statement that strategic decisions contribute to financial stability suggests that having management processes in place is not enough; managers also need tools and authority to implement decisions effectively.

Finally, future research should examine managerial capacity using longitudinal designs and objective financial indicators. Studies could also test whether specific interventions, such as financial-management training or leadership development programmes, produce measurable changes in hospital financial performance.

Limitations

The findings should be considered in light of several limitations. The cross-sectional design captures relationships at one point in time and therefore limits causal interpretation. Financial performance was measured through respondents' perceptions rather than audited financial statements, which introduces the possibility of reporting or social-desirability bias. The study was also confined to private health facilities in Wajir Town, so the findings may not automatically apply to rural facilities or private hospitals in other counties. Finally, the model explained 38.3% of the variance in financial performance, indicating that other factors not examined in this manuscript also contribute to financial outcomes.

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