DETERMINANTS OF PERFORMANCE OF MICROFINANCE COMPANIES IN NAIROBI CITY COUNTY IN KENYA

Philip Ndeto Munyoki
College of Human Resource and Development,
Jomo Kenyatta University of Agriculture and Technology
P. O. Box 62000, 00200 Nairobi, Kenya
Corresponding Author email: pmunyoki2000@gmail.com

Dr. Kepha Ombui
College of Human Resource and Development,
Jomo Kenyatta University of Agriculture and Technology
P. O. Box 62000, 00200 Nairobi, Kenya


ABSTRACT
Microfinance companies are key contributors and engines of economic development in many nations of the world. Many of these companies are faced with a numerous challenges especially in developing countries. The Microfinance market outlook indicated low growth and development among Microfinance institutions in sub-Saharan Africa where growth in Sub Saharan Africa is 20% against a growth rate of 25% in North Africa, 30% in Pacific and 27% in Asia. Many Microfinance institutions have not been successful in achieving sustainability. Various reasons have been cited for this failure, although not conclusively. The performance of microfinance institutions is a necessary condition for institutional sustainability. The microfinance paradigms focus on reduction of poverty through improving access to finance and financial services. However, the positive impacts of microfinance institutions on the welfare of the poor can only be sustained if the institutions can achieve a good financial performance. There was hence a need to relook at why they are performing poorly. Specifically the study examined the influence of training, innovation, managerial skills and access to information on performance of MFIs. The target population for this study was employees in all levels of management positions from the 13 MFIs. A sample size of 96 was selected from this population. Using an ordinary least square regression model, it was established that training, innovation, managerial skills and access to information all positively and significantly influence performance of microfinance institutions in Nairobi County. The study recommends the microfinance institutions within Nairobi County to put in place proper training practices such as technology skills in order to improve their performance; improvement in innovation practices involving new products and services; aim to have or improve the conceptual, technical and interpersonal skills of its employees in order to ensure effective management and put in place better platforms that enhance speedy access to accurate information by the employees of these institutions. Accordingly, it is imperative that the microfinance institutions invest in structures to improve access to information, employ mechanisms of accessing information on competitors, and train employees on how to access information on market trends, properly utilize the information accessed and train employees on how to access information using various technologies at their disposal.

Key Words: Training, Innovation, Managerial Skills, Access to information, Performance of Micro Finance Institutions
Introduction

Many microfinance institutions are currently not self-sustaining, and both theoretical and empirical work suggests that apart from their environment of operation, there are other internal factors that affect their ability to reach this goal, furthering the mission of outreach to the poor (Raposo & Paco, 2011). One survey by the Institute of Economic research found that 30% of domestic microfinance programs which were operating in 1996 were either no longer in operation or were no longer lending capital two years later. Furthermore most microfinance programs report difficulty in covering expenses without continued reliance on grants, external fundraising, or other subsidies (Munene, 2013). Policy makers in Europe and the United States believe that a major determinant of performance of micro enterprise firms is innovation and entrepreneurship skills (European Economic Review, 2010). On the contrary, Jørgensen (2011) established that the factors that statistically influenced profitability of MFIs positively were the capital asset ratio, age (new) and the gross loan portfolio. Janda and Turbat (2013) argued that in India, targeting women borrowers improves the financial results of microfinance institutions whereas the effectiveness of group lending or advantages of rural lending, in contrast to the initial expectations, were not confirmed. It also considers the contributions of different governance forms of microfinance institutions and the macroeconomic factors potentially influencing the financial performance of microfinance institutions.

In the United Kingdom, Goldfajn and Rigobon. (2010) argues that that macroeconomic stability, determined by stable inflation and real interest rates, plays a major role in financial sector development in both developed and developing economies. Taking a worldwide case, World Bank economists, Cull, Demirgüç-Kunt and Morduch (2009) argued that supervision is negatively associated with profitability of MFIs. King’ori, Kioko and Shikumo (2017) argued that in Africa, generally, Microfinance institutions are affected by internal factors such as lack of leverage, liquidity and risk management challenges, distribution challenges and human resource challenges. Most MFIs need to make intensive investments in promoting new and poor clients and lack of capital was a major hindrance to their performance. Lapenu and Zeller (2011) on the other hand revealed that the most important constraint for MFIs not to expand their outreach in Africa was the limited sources of funds. They noted that MFIs, like any other financial institution, must have a minimum amount of its own capital for reducing the risks of its lenders and depositors and that the costs of doing business are high relative to the value of loans and deposits involved. Smaller MFIs struggle to cover the high operational costs and diversify their product offerings in order to compete with larger microfinance providers.

Njogu (2011) states that Microfinance financial performance and growth mainly depends on the interest of the stakeholders. On the other hand, Muriuki (2013) links performance of MFIs to managerial skills gained through either training or any other form of education. The factors that determine financial performance as discussed by Vander Weele and Markovich (2001) include environmental factors namely: Macro-economic environment, International environment, Transition to service based economy, Growth of informal sector, Existence of Microfinance market, Infrastructure and geographical framework as well as firm specific factors of; Management skills and product innovation. The challenges of growth and financial performance are the; Strategic issues, Operational issues, Marketing issues and
Regulatory provisions. There are no universally accepted determinants of performance of MFIs and as a result, it remains an open topic which this study sort to exploit and fill.

**Statement of the problem**
The Microfinance market outlook (2016) indicates the low growth and development among Micro finance institutions in sub-Saharan Africa where growth in Sub Saharan Africa is 20% against a growth rate of 25% in North Africa, 30% in Pacific and 27% in Asia. Mbugua (2010) argues that many MFIs have not been successful in achieving sustainability. Various reasons have been cited for this failure, although not conclusively. The performance of microfinance institutions is a necessary condition for institutional sustainability. The microfinance paradigms focus on reduction of poverty through improving access to finance and financial services. However, the positive impacts of microfinance institutions on the welfare of the poor can only be sustained if the institutions can achieve a good financial performance. There is a need to relook at why they are performing poorly.

Munene (2013) argues that the key to improving this poor performance is internal factors such as Education and skills, innovation and access to information. According to Munene (2013), most of the microfinance companies are not well equipped in terms of education and skills. According to King and McGrath (2002), SMEs with education and training have high probability of succeeding. Reasons behind lack of growth from various studies have shown among other things lack of entrepreneurial education which affects growth negatively (Nelson. 2010). Furthermore technology and innovation by many Microfinance companies in most developing countries remains very limited (Mbugua, 2010). Inability to secure technology and innovation at start up affects the entrepreneurship development process in today’s world of globalization. Most of the residences start their own small businesses hoping to earn a living; however, these businesses either collapsed or are not doing well. In line with the poor performance of MFIs in Kenya, there was a need to establish the determinants. This study was hence necessary in finding out the determinants of performance of microfinance companies in Nairobi City County in Kenya.

**Research objectives**

1. To establish the influence of training on the performance of microfinance companies in Nairobi County in Kenya.
2. To determine the influence of innovation on the performance of microfinance companies in Nairobi County in Kenya.
3. To assess influence of managerial skills on performance of microfinance companies in Nairobi County in Kenya.
4. To analyze the influence of access to information on the performance of microfinance companies in Nairobi County in Kenya.
Literature Review

Theoretical Review

Schumpeter’s theory of Innovation

Schumpeter (1934) outlined the role of innovation in the entrepreneurial process. The author describes a process of “creative destruction” where wealth creation occurs through disruption of existing market structures due to introduction of new goods and services that cause resources to move away from existing firms to new ones thus allowing the growth of the new firms. Accordingly, Schumpeter calls innovation the specific tool of entrepreneurs, the means by which entrepreneurs exploit change as an opportunity for a different business or a different service. Schumpeter (1942) stressed the role of entrepreneurs as primary agents effecting creative destruction, and emphasized to the entrepreneurs the need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation; as well as their need to know and to apply the principles of successful innovation.

Human Capital Theory

The theory of Human capital was developed by Becker (1964), in his theory posits human capital as directly useful in the production process. The theory explicitly states that human capital increases a worker’s productivity in all tasks, though possibly differentially in different tasks, organizations, and situations. Although the role of human capital in the production process may be quite complex, there is a sense in which we can think of it as represented by a one-dimensional object, such as the stock of knowledge or skills which is directly part of the production function. Gardener (1974) also concurred that we should not think of human capital as one-dimensional, since there are many dimensions or types of skills. This contributed to the development of multiple-intelligences theory, in particular emphasizing how many geniuses/famous personalities were very “unskilled” in some other dimensions. The first use of the term "human capital" in modern human resources literature was by Schultz (1961). He classifies expenditures on human capital as investment rather than consumption. In the same year, Weisbrod (1961) developed a first conceptual framework for estimating the value of assets in the form of human capital (Dawson, 2012).

Peter Drucker’s Psychological Theory

According Peter Drucker’s Psychological Theory (1998) theory cause of emergence of entrepreneurship is certain psychological characteristics of an individual such as high need for achievement, capacity to withstand social opposition. Peter Drucker’s psychological theory is based on his assertion that entrepreneurship is neither an art nor a science, it is process. In this context, Singh and Gupta (2016) indicated that an entrepreneur decides to create a new enterprise and has a different psychological profile from the rest of the population. In addition the theory focuses on the individual mental and emotional elements that drive entrepreneurial activities. With regard to the above three theories of entrepreneurship, life changing or indeed lifesaving, stories of microfinance involvement in entrepreneurial activities are being played out daily across the globe as the organizations increasingly leverage their position and influence within communities to integrate the provision of critical services using a common platform (Brewer & Gibson, 2014). In order to combat poverty effectively and in order for MFIs to create lasting economic development
from the bottom of the pyramid, all the basic needs of the poor must be met and this includes provision of entrepreneurial education in MFIs.

**Information Asymmetry Theory**

According to Stiglitz and Weiss (1981) and Bester (1987) information asymmetries is the unequal share of information that is accessible to businesses seeking capital and the suppliers of such capital who are normally presumed to be at a greater informational disadvantage compared to the insiders of the businesses. Healy and Palepu (2001) argues that information asymmetries take the form of adverse selection or moral hazard and lead to increased costs in trying to acquire, ascertain the information presented by a party as well as the enforcement of a contract. Abor (2005) asserted that the challenge of finance gap occurs mainly due to the information asymmetries that occur between the financial service providers and borrowers. Mishkin and Eakins (2009) argues that adverse selection occurring in the financial markets are as a result of the potential borrowers who in most cases are presumably produce an adverse outcomes, that is, the bad credit risks, in most instances are the ones involved actively in seeking out loans and are therefore most likely to be selected. Because adverse selection exposes lenders to the likelihood of experiencing bad credit risks from loans issued, they might opt not to give out loans even though there are good credit risks in the financial markets.

### Independent Variables

**Dependent Variable**

**Figure 1 Conceptual Framework**

**Training**
- Skills and Knowledge
- Training Resources
- Experience

**Innovation**
- New Products/Services
- New Market
- New Processes

**Managerial Skills**
- Interpersonal managerial skills
- Teamwork
- Coordination

**Access to information**
- Competitors information
- Market Trends
- Technology

**Performance of Micro Finance Institutions**
- Profitability
- Turnover
- Market Share

Microfinance institutions have developed robust and reliable training programs for their employees to offer a platform from which to develop an integrated approach to improving
entrepreneurial skills. Training programs such as business training and technological skills are often necessary for MFIs to thrive. Entrepreneurial training is essential for both new and existing employees in order to develop themselves as well, adding new skills, knowledge and responsibilities than enable them to and to help the MFI to increase its profitability and sales turnover (Bengi & Njenje, 2016).

Additionally, other types of education such as business training and technical assistance are often necessary for MFIs to thrive. It is notable that the vast majority of MFIs workforce is struggling to reach their full potential due to lack of understanding of the fundamentals of budgeting, managing cash flow or asset investment. Education and training determines what services are most needed by clients and how to deliver them (Cull, Asli Demirgüç-Kunt & Morduch, 2009).

**Innovation**

Microfinance organizations must remain innovative in order to stay competitive. This drive to innovate produces the enabling conditions to create effective hybrids of integrated services. As adoption of these integrated service models expands, these models will become industry standard. Product differentiation is paramount to the success of MFIs. Andersen, Gawell and Spear (2014) noted that offering a combination of integrated services and financial products is one way to differentiate oneself in a crowed MFI market, in addition to meeting broader client needs and therefore providing a greater social impact. Innovative MFI products support sustainable urban development through youth training and empowerment programs. The programs are a source of initiatives as well as innovations to drive development and growth in slums, especially in the energy, water, sanitation, housing, employment, health, and solid waste sectors.

**Managerial Skills**

The success of micro-finance is determined by several factors among them leadership and management, availability of resources economic growth, microfinance institutional structure and strategies, and socio-economic factors that range from individual to community level. Musau (2014) noted that managerial skills play a key role to sustain success in microfinance. It is important to equip the management with entrepreneurial skills in order to come up with new initiatives like funding groups and individuals, giving subsidies only to those who are ready to offer quality services while understanding the complex interconnections between management and constraints. Managerial skills increase the depth of outreach as this promotes the reaching of more customers.

**Access to Information**

One of the biggest problems with micro-finance institutions is not just lack of collateral but lack of information about the competitors and market trends. OECD and the European Commission (2014) asserts that entrepreneurship education boosts performance of microfinance through supplying information about financing opportunities to existing and potential markets to respond to these needs. Microfinance employees provide basic low cost information about the market trends over the internet, while training workshops and one to one advice and coaching can provide richer information more tailored to the needs of individual clients (Andersen, Gawell, & Spear, 2013). Availability of information promotes
performance of MFIs through increased outreach and innovative policies that ensure financial viability.

**Research Methodology**

The study adopted a descriptive research design so as to determine the determinants of performance of MFIs. The target population for this study were all the top management employees of the 13 MFIs in Nairobi County (CBK, 2016). The study used Fisher (1982) formula to come up with a sample size of 96. The study then used stratified random sampling methodology to sample the number from the target population. The formula is as below:

\[ n = \frac{Z^2p(1-p)}{d^2} \]

Where:  
- \( n \) = Sample size,  
- \( Z \) = Normal distribution Z value score, (1.96),  
- \( p \) = Proportion of units in the sample size possessing the variables under study, where for this study it is set at 50% (0.5) and  
- \( d \) = Precision level desired or the significance level which is 10% (0.1) for the study.  

The study used both primary and secondary data. Questionnaires were used to obtain primary data from the study respondents on the independent variables of the study while a data collection sheet was used to collect data on the dependent variable (performance of micro finance banks). The secondary data was collected from the central bank of Kenya reports on the banks supervision. Both descriptive statistics and inferential statistics, that is correlation, regression were used for analysis. The multivariate regression analysis is as laid below.  

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e \]

Where:  
- \( Y \) = Performance of Microfinance Banks,  
- \( X_1 \) = Training,  
- \( X_2 \) = Innovation,  
- \( X_3 \) = Managerial skills,  
- \( X_4 \) = Access to Information,  
- \( e \) = Error term,  
- \( \alpha \) = Constant and  
- \( \beta \) = Coefficient of independent variable

**Results**

A total of 96 questionnaires were given out to employees in various management positions at the 13 MFIs operating in Nairobi County who were the respondents of the study. A total of 80 questionnaires out of these were filled and returned by the respondents representing an overall response rate of 83.33% that falls within the threshold recommended for statistical analysis (Mugenda & Mugenda, 2012).

**Demographic Characteristics**

**Table 1 Demographic Characteristics**

<table>
<thead>
<tr>
<th>Demographic Characteristic</th>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s Age</td>
<td>Less than 30 years</td>
<td>13.8%</td>
</tr>
<tr>
<td></td>
<td>31-40 years</td>
<td>22.5%</td>
</tr>
<tr>
<td></td>
<td>41-50 years</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>Over 50 years</td>
<td>33.8%</td>
</tr>
<tr>
<td>Respondent’s Level of education</td>
<td>Secondary</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td>College</td>
<td>31.3%</td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>56.3%</td>
</tr>
<tr>
<td>Respondents Experience</td>
<td>Below 3 years</td>
<td>17.5%</td>
</tr>
<tr>
<td></td>
<td>3-6 years</td>
<td>27.5%</td>
</tr>
<tr>
<td></td>
<td>Above 6 years</td>
<td>55%</td>
</tr>
</tbody>
</table>
Descriptive Findings and Analysis

Training

The study sought to determine the extent to which Training affects performance of MFIs within Nairobi County in Kenya. Respondents were asked to rate various statements on Training on a scale of 1-5 where 5= Strongly Disagree; 4= Disagree; 3= Moderately agree; 2= Agree and 1= Strongly Agree. The findings of the study reveal that majority of the respondents, 78.8% and mean value of 4.59, strongly agreed that there is training to improve the employees’ skills in technology in the MFIs within Nairobi County, with a further 1.2% of the study respondents also agreeing that there is training to improve the employees’ skills in technology and none of the study respondents disagreed that there is training to improve the employees’ skills in technology. However, 20% of the study respondents were moderate on whether there is training to improve the employees’ skills in technology in the MFIs within Nairobi County. The mean value of 4.59 implies that majority of the study respondents strongly agreed that there is training to improve the employees’ skills in technology and the relatively low value of standard deviation implies low variation in the responses on whether there is training to improve the employees’ skills in technology.

The findings of the study further revealed that majority of the respondents, 96.2%, also strongly agreed that there is training to improve the employees’ knowledge in technology in the MFIs within Nairobi County with only 3.8% of the study respondents moderately agreeing that there is training to improve the employees’ knowledge in technology in the MFIs and none of the respondents disagreed with this statement. The mean value of 4.93 implies that majority of the respondents strongly agreed that there is training to improve the employees’ knowledge in technology in the MFIs and the low standard deviation of 0.38 implies low variation in responses regarding availability of training to improve the employees’ knowledge in technology in the MFIs. The findings of the study also revealed that majority of the study respondents, 40% moderately agreed that there is training to impart new skills and technology for the MFIs within Nairobi County with only 15% of the study respondents strongly agreeing with this statement and a further 30% of the respondents agreeing there is training to impart new skills and technology. However, 10% of the study respondents strongly disagreed that there is training to impart new skills and technology with a further 5% of the respondents also disagreeing with this statement. The mean value of 3.35 implies that majority of the respondents moderately agreed that there is training to impart new skills and technology and the standard deviation value of 1.11 indicating a high variation in responses regarding availability of training to impart new skills and technology.

Moreover, the study findings indicated that majority of the respondents, 32.5%, agreed that the training materials and resources available are sufficient, with a further 13.8% of the respondents also strongly agreeing to this statement. However, 12.5% of the study respondents strongly disagreed that the training materials and resources available are sufficient with a further 16.20% of the respondents disagreeing with this statement. The mean value of 3.51 further implies that majority of the respondents, 30%, agreed that There is training to enhance the employees experience in operation.
Table 2 Training

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Moderately agree</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is training to improve the employees skills in technology</td>
<td>0.00%</td>
<td>0.00%</td>
<td>20.00%</td>
<td>1.20%</td>
<td>78.80%</td>
<td>4.59</td>
<td>0.81</td>
</tr>
<tr>
<td>There is training to improve the employees knowledge in technology</td>
<td>0.00%</td>
<td>0.00%</td>
<td>3.80%</td>
<td>0.00%</td>
<td>96.20%</td>
<td>4.93</td>
<td>0.38</td>
</tr>
<tr>
<td>There is training to impart new skills and technology</td>
<td>10.00%</td>
<td>5.00%</td>
<td>40.00%</td>
<td>30.00%</td>
<td>15.00%</td>
<td>3.35</td>
<td>1.11</td>
</tr>
<tr>
<td>The training materials and resources available are sufficient</td>
<td>12.50%</td>
<td>16.20%</td>
<td>% 25.00%</td>
<td>32.50%</td>
<td>13.80%</td>
<td>3.19</td>
<td>1.23</td>
</tr>
<tr>
<td>There is training to enhance the employees experience in operation</td>
<td>13.80%</td>
<td>6.20%</td>
<td>22.50%</td>
<td>30.00%</td>
<td>27.50%</td>
<td>3.51</td>
<td>1.33</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.91</td>
<td>0.97</td>
</tr>
</tbody>
</table>

Innovation

The study further sought to determine extent to which Innovation affects performance of MFIs within Nairobi County in Kenya. Respondents were asked to rate various statements on Innovation on a scale of 1-5 where 5= Strongly Disagree; 4= Disagree; 3= moderately agree; 2= Agree and 1= Strongly Agree. The findings of the study reveal that majority of the respondents, 56.20% mean value 3.96 strongly agreed that organizations have invested towards improvement of innovative services, with a further 6.2% of the study respondents also agreeing to this statement. Only 5% of the study respondents strongly disagreed that organizations have invested towards improvement of innovative services with another 12.5% of the respondents also disagreeing with the statement and 20% of the respondents moderately agreeing that organizations have invested towards improvement of innovative services. The mean value of 3.96 therefore implies that majority of the respondents agreed that organizations have invested towards improvement of innovative services with the standard deviation value of 1.32 indicating high variation in the responses on this statement.

The study findings further revealed that majority of the study respondents, 46.2% strongly agreed that organizations have invested towards improvement of the products being offered, 3.8% of the respondents agreed and 17.5% of the study respondents moderately agreed that organizations have invested towards improvement of the products being offered. However, 22.5% of the study respondents disagreed that organizations have invested towards improvement of the products being offered with another 10% of the respondents strongly disagreeing. The mean value of 3.54 implies that majority of the respondents agreed that organizations have invested towards improvement of the products being offered with the standard deviation value of 1.5 indicating a high variation in responses regarding the fact that organizations have invested towards improvement of the products being offered.
findings, it was also revealed that 58.8% of the study respondents strongly agreed that organizations have invested towards exploring new markets, with a further 16.2% of the respondents agreeing that organizations have invested towards exploring new markets and 7.5% of the respondents moderately agreeing with the statement. However, 10% of the respondents disagreed that organizations have invested towards exploring new markets with a further 7.5% of the respondents strongly disagreeing with this statement. The mean value of 4.09 implies that majority of the respondents agreed that organizations have invested towards exploring new markets with the standard deviation value of 1.32 indicating a high variation in responses regarding this statement.

The study findings further reveal that majority of the study respondents, 31.2%, strongly agreed that organizations have invested towards development of new processes, with a further 16.2% of the respondents also agreeing to this statement and 25% of the respondents moderately agreeing that organizations have invested towards development of new processes. However, 15% of the respondents disagreed that organizations have invested towards development of new processes with another 12.5% of the respondents strongly disagreeing with this statement. The mean value of 3.39 implies that majority of the respondents moderately agreed that organizations have invested towards development of new processes and the standard deviation value of 1.39 indicating a high variation in responses regarding this statement. The findings finally revealed that majority of the respondents, mean value 3.56, agreed that employees are encouraged to be innovative with the standard deviation value of 1.13 indicating high variation in responses on this statement.

**Table 3 Innovation**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Moderately agree</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization has invested towards improvement of the services</td>
<td>5.00%</td>
<td>12.50%</td>
<td>20.00%</td>
<td>6.20%</td>
<td>56.20%</td>
<td>3.96</td>
<td>1.32</td>
</tr>
<tr>
<td>The organization has invested towards improvement of the products being offered</td>
<td>10.00%</td>
<td>22.50%</td>
<td>17.50%</td>
<td>3.80%</td>
<td>46.20%</td>
<td>3.54</td>
<td>1.50</td>
</tr>
<tr>
<td>The organization has invested towards exploring new markets</td>
<td>7.50%</td>
<td>10.00%</td>
<td>7.50%</td>
<td>16.20%</td>
<td>58.80%</td>
<td>4.09</td>
<td>1.32</td>
</tr>
<tr>
<td>The organization has invested towards development of new processes</td>
<td>12.50%</td>
<td>15.00%</td>
<td>25.00%</td>
<td>16.20%</td>
<td>31.20%</td>
<td>3.39</td>
<td>1.39</td>
</tr>
<tr>
<td>The employees are encouraged to be innovative</td>
<td>10.00%</td>
<td>2.50%</td>
<td>27.50%</td>
<td>41.20%</td>
<td>18.80%</td>
<td>3.56</td>
<td>1.13</td>
</tr>
</tbody>
</table>

**Managerial Skills**

The study also sought to determine the extent to which managerial skills affects performance of MFIs within Nairobi County in Kenya. Respondents were asked to rate various statements on managerial skills on a scale of 1-5 where 5= Strongly Disagree; 4= Disagree; 3= moderately agree; 2= Agree and 1= Strongly Agree. The findings of the study on managerial skills reveal that that majority of the respondents, 47.5%, strongly agreed that the top
management have been trained on the interpersonal managerial skills, with a further 20% of the respondents also agreeing to this statement and 22.5% of the respondents moderately agreeing that the top management have been trained on the interpersonal managerial skills. However, 7.5% of the study respondents strongly disagreed that the top management have been trained on the interpersonal managerial skills and a further 2.5% also disagreed to this statement. The mean value of 3.98 implies that majority of the study respondents agreed that the top management have been trained on the interpersonal managerial skills and the standard deviation value of 1.22 indicating high variation regarding responses on this statement.

The findings also reveal that majority of the respondents, 58.8% and mean value 4.35, strongly agreed that the top management have been trained on the team work managerial skills, with 27.5% of the respondents also agreeing to this statement and 6.2% of the respondents moderately agreeing that the top management have been trained on the team work managerial skills. Only 2.5% of the respondents strongly disagreed that the top management have been trained on the team work managerial skills with a further 5% of the respondents also disagreeing with the statement. The findings of the study also revealed that majority of the respondents, 58.8%, agreed that the top management have been trained on the coordination managerial skills, with a further 4.35% of the respondents also strongly agreeing with this statement and 6.2% of the respondents moderately agreeing that the top management have been trained on the coordination managerial skills.

Only 2.5% of the respondents strongly disagreed that the top management have been trained on the coordination managerial skills and a further 5.5% of the respondents disagreeing with this statement. The mean value of 4.35 implies that majority of the respondents agreed that the top management have been trained on the coordination managerial skills and the standard deviation value of 0.98 indicating low variation in responses on this statement. The study findings also revealed that majority of the respondents (58.8%) agreed that the top management have been trained on the coordination managerial skills with a further 17% of the respondents also strongly agreeing with this statement and 5% of the respondents moderately agreeing that the top management have been trained on the coordination managerial skills.

The findings of the study finally reveal that majority of the respondents, mean value 3.96 agreed that the top management have been trained on the people management skills managerial skills with the standard deviation value of 1.22 indicating a high variation in responses on this statement.

Table 4 Managerial Skills

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Moderately agree</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The top management have been trained on the interpersonal managerial skills</td>
<td>7.50%</td>
<td>2.50%</td>
<td>22.50%</td>
<td>20.00%</td>
<td>47.50%</td>
<td>3.98</td>
<td>1.22</td>
</tr>
<tr>
<td>The top management have been trained on the team work managerial skills</td>
<td>2.50%</td>
<td>5.00%</td>
<td>6.20%</td>
<td>27.50%</td>
<td>58.80%</td>
<td>4.35</td>
<td>0.98</td>
</tr>
</tbody>
</table>
The top management have been trained on the coordination managerial skills

|          | 8.80% | 10.00% | 5.00% | 58.80% | 17.50% | 3.66 | 1.15 |

The top management have been trained on the conflict management managerial skills

|          | 5.00% | 15.00% | 8.80% | 30.00% | 41.20% | 3.88 | 1.25 |

The top management have been trained on the people management skills managerial skills

|          | 7.50% | 2.50%  | 22.50%| 21.20% | 46.20% | 3.96 | 1.22 |

Average 3.97 1.16

Access to Information

The study finally sought to determine the extent to which Access to Information affects performance of MFIs within Nairobi County in Kenya with the study respondents asked to rate various statements on access to information on a scale of 1-5 where 5= Strongly Disagree; 4= Disagree; 3= moderately agree; 2= Agree and 1= Strongly Agree. The average responses are as indicated in Table 5. The findings of the study on access to information reveal that majority of the respondents, 71.2%, strongly agreed that there is investment in structures to improve access to information with a further 6.2% of the respondents also agreeing to this statement and 22.5% of the respondents moderately agreeing that there is investment in structures to improve access to information. None of the study respondents disagreed that there is investment in structures to improve access to information by the MFIs within Nairobi County. The mean value of 4.49 therefore implies that majority of the respondents agreed that there is investment in structures to improve access to information with the standard deviation value of 0.84 indicating low variation in responses regarding this statement.

The findings of the study also reveal that majority of the respondents, 68.8%, strongly agreed that organizations have mechanisms of accessing information on competitors with a further 21.2% of the respondents also agreeing to this statement and only 10% of the respondents moderately agreeing that organizations have mechanisms of accessing information on competitors. Similarly, none of the respondents disagreed that organizations have mechanisms of accessing information on competitors. The mean value of 4.59 also implies that majority of the respondents strongly agreed that organizations have mechanisms of accessing information on competitors with the standard deviation value of 0.67 indicating low variation in responses on this statement. Moreover, the findings of the study revealed that majority of the respondents 52.5% of the respondents strongly agreed that there is a training on how to access information on market trends with a further 41.2% of the respondents also agreeing to this statement and only 6.2% of the respondents moderately agreeing that there is a training on how to access information on market trends.

None of the respondents disagreed that there is a training on how to access information on market trends with the mean value of 4.46 implying that majority of the respondents agreed to this statement and the standard deviation value of 0.62 indicating a low variation in the responses. The findings of the study also revealed that majority of the respondents, mean value 4.06 agreed that there is a training on how to utilize the information accessed in the MFIs within Nairobi County with the standard deviation value of 1.04 indicating a high
variation in responses regarding this statement. Majority of the respondents as indicated by a mean value of 4.31 also agreed that there is training on how to access information using various technologies available with the standard deviation value of 0.82 indicating low variation in responses.

**Table 5 Access to Information**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Moderately agree</th>
<th>Agree</th>
<th>Strongly agree</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is investment in structures to improve access to information</td>
<td>0.00%</td>
<td>0.00%</td>
<td>22.50%</td>
<td>6.20%</td>
<td>71.20%</td>
<td>4.49</td>
<td>0.84</td>
</tr>
<tr>
<td>The organization has mechanisms of accessing information on competitors</td>
<td>0.00%</td>
<td>0.00%</td>
<td>10.00%</td>
<td>21.20%</td>
<td>68.80%</td>
<td>4.59</td>
<td>0.67</td>
</tr>
<tr>
<td>There is a training on how to access information on market trends</td>
<td>0.00%</td>
<td>0.00%</td>
<td>6.20%</td>
<td>41.20%</td>
<td>52.50%</td>
<td>4.46</td>
<td>0.62</td>
</tr>
<tr>
<td>There is a training on how to utilize the information accessed</td>
<td>5.00%</td>
<td>2.50%</td>
<td>12.50%</td>
<td>41.20%</td>
<td>38.80%</td>
<td>4.06</td>
<td>1.04</td>
</tr>
<tr>
<td>There is a training on how to access information using various technologies available</td>
<td>0.00%</td>
<td>0.00%</td>
<td>22.50%</td>
<td>23.80%</td>
<td>53.80%</td>
<td>4.31</td>
<td>0.82</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>4.38</strong></td>
<td></td>
<td><strong>0.80</strong></td>
</tr>
</tbody>
</table>

**Performance of Micro Finance Banks**

The study conducted a trend analysis of the performance of the micro finance banks in Kenya. Data on market share (Percentage of the bankable population), pretax profits, returns on assets and total number of MFI branches was collected from the reports by central bank of Kenya. The findings presented in Figure 2 indicates variations in the market share of the MF banks of the total share in the market. For the last five years, the market share has been below 5% which indicate dominance of the market by other players such as commercial banks.

![Figure 2: Market Share](http://www.ijise.org)

The study also established the returns on assets of the micro finance banks taken as an average of the sector. The findings reveal fluctuations in the returns on assets with the sector recording lowest figures in the year 2013 where the returns were negative which an
indication of poor performance is. The performance of the MF banks in the year 2016 was also negative. This justifies the statement of the problem.

**Figure 3: Return on Assets**

The findings presented in Figure 4.7 reveals that there was fluctuations in the amount of pretax profits among the MF banks operating in Kenya for the last five years. The profits dropped from 549 Billion in the year 2015 to a loss of 377 Billion in the year 2016. This justified the statement of the problem that MF banks in Kenya record fluctuating performance.

**Figure 4 : Amount of Pretax Profits**

The findings revealed that the number of MF banks branches has been increasing over the last five years from a figure of 94 branches in the year 2012 to more than 100 branches nationwide in the year 2016. This reveals that the MF banks have a potential of growing if the determinants of their performance is established.

**Figure 4 : Total number of MF banks branches**
Correlation Analysis

The study findings revealed a positive and significant relationship between Training and performance of MFIs (R = 0.379, Sig <0.05). Accordingly, an improvement in various indicators of training such as improving the employees’ skills in technology, improving the employees’ knowledge in technology, imparting new skills and technology into the employees, availability of sufficient training materials and resources and enhancing the employees experience in operation will significantly improve the performance of MFIs in Nairobi County. This finding is consistent with the argument of Agoi (2017) that training practices and talent management practices have a positive and significant influence on employee satisfaction hence good performance of an organization. The correlation results also revealed a positive and significant relationship between Innovation and performance of MFIs in Nairobi County (R = 0.226, Sig <0.05). This implies that an improvement in Innovation indicators such as organizations investing towards improvement of the services, improvement of the products being offered, exploring new markets, investing towards development of new processes and encouraging employees to be more innovative will improve the performance of MFIs in Nairobi County. This finding is consistent with the argument of Bukhamsin (2015) that innovation capability and innovation process directly and positively influence overall firm financial and operational performance, both measures of firm performance.

Further, the correlation results indicated a positive and significant relationship between Managerial skills and performance of MFIs in Nairobi County (R = 0.304, Sig <0.05). This implies that an improvement in managerial skills such as training top management on the interpersonal managerial skills, team work managerial skills, coordination managerial skills, conflict management managerial skills and human resource management skills will improve the performance of MFIs in Nairobi County. This finding is consistent with the argument of Waithaka (2014) that best practices in the board characteristics, leadership characteristics and the involvement of stakeholders in the board are the key policy consideration areas in addressing performance. Finally, the correlation results also revealed existence of a positive and significant relationship between access to information and performance of MFIs in Nairobi County (R = 0.502, Sig <0.05). This implies that an improvement in various indicators of access to information such as investment in structures to improve access to information, employing mechanisms of accessing information on competitors, training on how to access information on market trends, training on how to utilize the information accessed and training on how to access information using various technologies available will improve performance of MFIs in Nairobi County. The findings are consistent with the arguments of Bunyasi (2015) that access to business information and access to entrepreneurial finance have a great influence on the growth and performance of SMEs.
Correlation Analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Training</th>
<th>Innovation</th>
<th>Managerial skills</th>
<th>Access to information</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td>Pearson</td>
<td>Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>Pearson</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>Pearson</td>
<td>Correlation</td>
<td>-0.184</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>Pearson</td>
<td></td>
<td>0.103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial skills</td>
<td>Pearson</td>
<td>Correlation</td>
<td>-0.156</td>
<td>-0.156</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>Pearson</td>
<td></td>
<td>0.167</td>
<td>0.167</td>
<td></td>
</tr>
<tr>
<td>Access to information</td>
<td>Pearson</td>
<td>Correlation</td>
<td>0.125</td>
<td>-0.028</td>
<td>.236*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>Pearson</td>
<td></td>
<td>0.269</td>
<td>0.803</td>
<td>0.035</td>
</tr>
<tr>
<td>Performance</td>
<td>Pearson</td>
<td>Correlation</td>
<td>.379**</td>
<td>.226*</td>
<td>.304**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>Pearson</td>
<td></td>
<td>0.001</td>
<td>0.043</td>
<td>0.006</td>
</tr>
<tr>
<td>N</td>
<td></td>
<td></td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

The model summary results indicated that the four independent variables (training, innovation, managerial skills and access to information) jointly had a strong positive influence on Performance of Microfinance Institutions in Nairobi County as supported by a joint Pearson correlation of 0.742 implying that an improvement in all the four variables i.e. training, innovation, managerial skills and access to information leads to a strong positive improvement in Performance of Microfinance Institutions in Nairobi County. The coefficient of determination (R-square) was also 0.55. This implies that training, innovation, managerial skills and access to information jointly account for up to 55% of the variation in Performance of Microfinance Institutions in Nairobi County. Consequently, the remaining 45% of the variation in the Performance of Microfinance Institutions in Nairobi County is accounted for by other factors not included in the model. The results for the model summary are as shown in Table 7.

Table 7 Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.742</td>
<td>0.55</td>
<td>0.526</td>
<td>0.69749</td>
</tr>
</tbody>
</table>

For the overall significance of the model, the F statistic is significant at 5% (Sig =0.000) showing that the model was significant. The F calculated statistic of 22.955> F (4, 75) critical value of 2.494 that further confirms the model significance. The fact that the model is significant implies that the four independent variables that is, training, innovation,
managerial skills and access to information used in this study are suitable factors in predicting the Performance of Microfinance Institutions in Nairobi County. The results for model significance are presented in Table 8.

Table 8 ANOVA (Model Significance)

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>44.669</td>
<td>4</td>
<td>11.167</td>
<td>22.955</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>36.486</td>
<td>75</td>
<td>0.486</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>81.156</td>
<td>79</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Performance
Predictors: (Constant), Access to information, Innovation, Training, Managerial skills

The regression coefficient results indicated that Training positively and significantly influences Performance of Microfinance Institutions in Nairobi County (Beta = 0.709, Sig < 0.05). This implies that a unit increase in various indicators of training including improving the employees' skills in technology, improving the employees' knowledge in technology, imparting new skills and technology into the employees, availability of sufficient training materials and resources and enhancing the employees experience in operation will result to a 0.709 unit effect in the Performance of Microfinance Institutions in Nairobi County. The findings are consistent with the findings by Naikuni (2017) who revealed a positive relationship and association between staff resourcing practices such as training and institutional performance. The findings further shows that Innovation positively and significantly influences Performance of Microfinance Institutions in Nairobi County (Beta = 0.346, Sig < 0.05) implying that that an improvement in innovation indicators including organizations investing towards improvement of the services, improvement of the products being offered, exploring new markets, investing towards development of new processes and encouraging employees to be more innovative leads to a 0.346 unit positive and significant improvement in the Performance of Microfinance Institutions in Nairobi County, a finding that is consistent with the findings by Wambugu (2016) who indicated that innovativeness has a positive and significant relationship with firm performance.

The regression results also revealed that managerial skills positively and significantly affects Performance of Microfinance Institutions in Nairobi County (Beta = 0.364, Sig < 0.05). This implies that an improvement in managerial skills such as training top management on the interpersonal managerial skills, team work managerial skills, coordination managerial skills, conflict management managerial skills and human resource management skills will result to 0.364 unit improvement in Performance of Microfinance Institutions in Nairobi County. These finding is consistent with the findings of a study by Ongoro (2014) who concluded that management skills have an effect on the growth of hotel MSES in Keroka. Finally, the regression results indicated that access to information had a positive and significant influence on the Performance of Microfinance Institutions in Nairobi County (Beta = 0.824, Sig < 0.05). This implies that a unit improvement in access to information indicators such as investment in structures to improve access to information, employing mechanisms of accessing information on competitors, training on how to access information on market trends, training on how to utilize the information accessed and training on how to access.
information using various technologies available will result to a 0.824 unit improvement in the Performance of Microfinance Institutions in Nairobi County. The findings are consistent with Gichure (2017) who concluded that availability of information required by banks can improve access to finance by SMEs in Kenya. The results for the regression coefficients are presented in Table 9.

### Table 9 Regression Coefficients

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>5.117</td>
<td>0.966</td>
<td>0.455</td>
<td>5.295</td>
<td>0.000</td>
</tr>
<tr>
<td>Training</td>
<td>0.709</td>
<td>0.127</td>
<td>0.455</td>
<td>5.585</td>
<td>0.000</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.346</td>
<td>0.074</td>
<td>0.374</td>
<td>4.662</td>
<td>0.000</td>
</tr>
<tr>
<td>Managerial skills</td>
<td>0.364</td>
<td>0.087</td>
<td>0.345</td>
<td>4.171</td>
<td>0.000</td>
</tr>
<tr>
<td>Access to information</td>
<td>0.824</td>
<td>0.178</td>
<td>0.374</td>
<td>4.625</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Dependent Variable: Performance

The optimal regression model is as shown below

\[
\text{Performance of MFIs} = 5.117 + 0.709 \times \text{Training} + 0.346 \times \text{Innovation} + 0.824 \times \text{Access to information} + 0.364 \times \text{Managerial skills}
\]

The revised model indicates that all the four variables had a significant influence on performance of MFIs. However, training was the most significant, followed by innovation, access to information and lastly managerial skills according to the strength of the t-statistics.

### Conclusions

From the findings, the study concluded that there is a positive and significant relationship between training and performance of microfinance institutions within Nairobi County. An improvement in various indicators of training such as improving the employees’ skills in technology, improving the employees’ knowledge in technology, imparting new skills and technology into the employees, availability of sufficient training materials and resources and enhancing the employees experience in operation will result to positive and significant improvement in performance of microfinance institutions within Nairobi County. Another conclusion made by the study based on the study findings is that innovation and performance of microfinance institutions within Nairobi County is positive and significant. Accordingly, an improvement in innovation indicators such as organizations investing towards improvement of the services, improvement of the products being offered, exploring new markets, investing towards development of new processes and encouraging employees to be more innovative leads to positive and significant improvement in the performance of microfinance institutions within Nairobi County.

The study also concluded based on the findings that managerial skills are positively and significantly associated with performance of microfinance institutions within Nairobi County. Consequently, an improvement in such managerial skills as training top management on the interpersonal managerial skills, team work managerial skills, coordination managerial skills, conflict management managerial skills and human resource management skills will result to positive and significant improvement in performance of microfinance institutions within Nairobi County. On access to information, the study concluded that there is a positive and significant association between access to information and performance of microfinance
institutions within Nairobi County. Accordingly, an improvement in the various access to information indicators such as investment in structures to improve access to information, employing mechanisms of accessing information on competitors, training on how to access information on market trends, training on how to utilize the information accessed and training on how to access information using various technologies available will result to a positive and significant improvement in the performance of microfinance institutions within Nairobi County.

Recommendations of the Study

The study recommends the microfinance institutions within Nairobi County to put in place proper training practices such as technology skills in order to improve their performance. The study also recommends that in order for the microfinance institutions within Nairobi County to improve their performance, there is a pressing need for improvement in its innovation practices involving new products and services. Further, the study recommends that the microfinance institutions within Nairobi County should aim to have or improve the conceptual, technical and interpersonal skills of its employees in order to ensure effective management. The study finally recommends that in order for the microfinance institutions within Nairobi County to improve their performance, there is a growing need to put in place better platforms that enhance speedy access to accurate information by the employees of these institutions. Accordingly, it is imperative that the microfinance institutions invest in structures to improve access to information, employ mechanisms of accessing information on competitors, and train employees on how to access information on market trends, properly utilize the information accessed and train employees on how to access information using various technologies at their disposal.

Acknowledgement

I thank the Lord God Almighty for protection, provision, intellect, health and wealth. This entire course would have not been possible without your divine enablement. Thank you Jesus. I also acknowledge my supervisor Dr Kepha Ombui and also Dr. Allan Kihara whose guidance, encouragement, suggestions and constructive criticisms were instrumental in the success of this project. Your availability and dedication to your students, puts you a class above the rest. To all my colleagues classmates for sharing and discussion, thank you.

God Bless you.

References


