Relationship Between Financial Resources And Performance Of Credit Only Microfinance Institutions In Kenya

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Abstract: This study sought to determine the relationship that exists between financial resources and performance of Credit Only Microfinance Institutions in Kenya. Descriptive and explanatory research designs were adopted in this study. Target population was 309 respondents drawn from the 30 Credit Only Microfinance Institutions headquartered in Nairobi City County, Kenya. Proportionate stratified and simple random sampling technique was used to select a sample of 171 respondents from the top, middle and lower level management. Primary data was collected using semi structured, self-administered questionnaire and analysed using means and standard deviation. Multiple regression analysis was used to show the nature of the relationship that exist between the study variables. Results were presented in tables and graphs. Results showed that financial resources significantly affected performance of credit only microfinance institutions in Nairobi City County and therefore the management should carefully manage financial resources to improve performance of microfinance institutions. The study suggests that other studies be conducted on other deposit taking microfinance institutions and other financial institutions such as commercial banks to establish if similar results would be obtained. The study also suggests that others studies should be conducted covering periods longer than five years to if similar results would be obtained.

Keywords: Financial resources, Performance, Credit only, Microfinance Institutions

I. INTRODUCTION

The Institute of International Finance (IIF) reported that the global financial sector performed well until the emergence of the 2008 financial crisis (IIF, 2014) which forced financial institutions to tighten their regulatory framework especially on risk management in terms of identification and mitigation. Nonetheless, the financial sector in developed markets has experienced significant growth due to factors such as stiff regulatory regimes and deleveraging which calls for higher core capital for the financial institutions (Diar, Rotich & Ndambiri, 2017). However, in the emerging markets such India, Mexico, Nigeria and other developing African countries, financial penetration is relatively low at less than 4 percent and continue to deteriorate with increase in population.

Microfinance Institutions (MFIs) in developing countries, like in developed countries, have also experienced unstable performance trends. In Kenya, MFIs have become the most affordable and accessible financial service providers in Kenya (Diar, Rotich & Ndambiri, 2017). Maina and Ishmail (2014) noted that the performance of Microfinance Institutions in Kenya is characterised by low levels of efficiency and high financial leverage level which negatively affect their return on shareholders' equity. Further, Mulunga (2010) noted that some Microfinance firms are not able to adequately manage their financial resources to meet their financial needs in the future this results to liquidity problems. There is therefore need for Microfinance Institutions must identify and obtain financial resources for their survival.

Organisation performance has been the centre of focus in strategic management research for decades (Daley, 2012) trying to explain why identical firms operating in the same industry will have different levels of performance (Combs, Ketchen Jr, Ireland & Webb, 2011). Schechner (2017) views organisational performance as how effective the firm meets its

goals. The indicators of performance are often chosen in line with the firm's objectives, strategies and framework. These indicators can either be in terms of financial or non-financial performance indicators. Ogot (2014) points out that the performance of the organization is made up of both operational and financial indicators. López-Gamero, Claver-Cortes and Molina-Azorin (2009) define performance as subjective approaches where firms rate their performance against different measurers compared to their competitors. The factors used to compare this performance include factors such as growth in employment, sales, market share, return on investment, cash flow and profits before tax (Lu, 2016). This study will adopt non-financial indicators such as market share, efficiency of resource utilization, customer satisfaction, and retention rate.

Kenya experienced a rapid growth of the Microfinance Institutions with over 1000 institutions practicing micro-lending and majority of them have replicated the model of providing financial services to those living under low income (Omino, 2015). Out of the 1000 institutions, there are 64 deposit taking Microfinance Institutions that serve over 6.1 million clients with assets worth more than Ksh. 325 billion. Among them, Equity Bank had the largest market share of approximately 73.50% closely followed by Kenya Women Microfinance Bank (KWFT) with 12.06%. Others are K-Rep, now Sidian Bank, with 6.39%, Faulu (3.56%) and Jamii Bora (0.86%) (CBK, 2018). The Association of Microfinance Institutions (AMFI) is the body that is mandated with controlling micro finance institutions in Kenya. This body has both large and small MFIs as members. These members have a diverse legal status including insurance firms, development firms, microfinance banks, retail and wholesale MFIs. The membership of the AMFIs currently made up of 55 institutions serving more than 6.5 million customers and these institutions have an outstanding loan portfolio of Kshs 29 billion (AMFI, 2012). These institutions play an essential role in the achievement of vision 2030 goal of financial inclusion whereby this goal seeks to reduce the population that cannot access financial services to 70%.

II. THEORETICAL LITERATURE REVIEW

This study is based on the Resource Based View (RBV) model as developed by Wernerfelt in 1984. According to the model, for resources to help it to outperform its competitors, they must be hard to imitate and those that bring value to the firm (Rau, 2014). However, Selznick (1957) had earlier pointed out that every firm has its own distinct characteristics that allow it to be better than its competitors. Around the same time, Penrose (1959) defined a firm as being made up of more than one productive resources. These definitions point towards the importance of resources to the firm's performance. Assuming that the resources are not uniformly distributed in different organisations and that the differences in distribution remain the same with time, a firm with more resources will beat its competitors.

Hoopes, Madsen and Walker (2003) concluded that four empirical indicators that offer firm's resources the potential to generate superior performance include non-substitutability,

rareness, value and inimitability. According Barney (2014) the resources of an organization are made up of capabilities, assets, knowledge, information, and characteristics of the organization. These resources should be controlled by the firm and they should help the firm use strategies that allow it to be more effective and efficient in its operations. Every firm comes up with strategies that can help it achieve a competitive advantage over other firms in the industry and achieve greater performance.

The resources of the firm can be categorized into tangible and intangible resources. Tangible resources include resources such as human, physical, financial and technological resources. On the other hand, intangible resources include resources such as know-how, reputation and brand (Hitt, Carnes & Xu, 2016). Tangible resources can lead to a competitive advantage on the firm but their disadvantage is that they can be accessed by other organizations and they are also cheap to imitate when compared to intangible resources. Barney (2014) suggests that resources owned by a firm can be configured to improve a firm's performance.

III. EMPIRICAL LITERATURE REVIEW

This section contains a review of studies previously conducted on the study variables aimed at identifying the gaps that exist. A number of studies have been conducted on financial resources trying to relate it with other constructs such as corporate reputation, financial performance and growth of businesses. For instance, Siano, Kitchen and Giovanna (2010) did a research on corporate reputation and financial resources. The research sought to investigate the convergent elements that exist between financial resources and corporate reputation. Using analogy-based approach the study concluded that there exist similarities in the risks and functions between financial resources and corporate reputation. However, this study was theoretical in nature and therefore lacks empirical backing since no statistical tests were conducted. In addition, this review was done in the developed countries and the results of the study are applicable to Kenya.

Carrick (2012) conducted a study aimed at unearthing insights on the motivations, assets and processes that lead to the development of Research and Development (R&D) and financial resources and capabilities. To accomplish this objective, the study adopted a case study method. The study used secondary data as well as primary data collected from twenty interviews. Analysis was carried out using multiple step abstraction and condensing process. Findings from the research showed that that a set of routines, capabilities, assets, decisions, future opportunities led to the development of financial resources, R&D and financial capabilities. This research was based on life science ventures in the United Kingdom whose operating environment is significantly different from that of Credit Only Microfinance Institutions in Kenya.

Otoo (2013) looked at the effect of financial innovations on the financial performance of Kenyan commercial banks. The researcher employed the descriptive survey research design. The study population consisted of 43 commercial banks in Kenya from which a sample of 30 commercial banks

were used in the multi stage sampling technique. Primary data was collected using self-administered questionnaires while secondary data was obtained from researched work and articles, economic surveys CBK annual report and library. The major findings of the study were that the development and the challenges of financial innovations had no significant relationship with the Kenyan commercial banks performance but a significant relationship did exist between the performance and financial innovation of the banks. This research was done using the Kenyan commercial banks. The current research was done on Credit Only Microfinance Institutions in Nairobi City County, Kenya.

Mwangi (2016) conducted a study on the effect of financial structure on performance of firms listed at East Africa Securities Exchanges. An explanatory research design was used in this study with secondary data. Data analysis was done with the help of feasible Generalized Least Squares method. According to the research findings, isolation, retained earnings, short-term debt, external equity and long term debts negatively affected the returns on assets. However, findings also showed that these factors had a positive effect on return on equity. Combined the study found out that the financial structure of the firm had a negative and positive effect on return on assets and return on equity respectively. Though the results of the study shed light on the relationship that exist between financial resources and firm performance, the study concentrated on how the combination of the sources of finance affect performance.

In summary, this study has found that a number of studies have been done on performance. In deed there exist studies on financial resources such as Siano, Kitchen and Giovanna (2010) and Carrick (2012). However, these studies have not shown the direct link between strategic financial resources and performance. This study has also noted that researchers in Kenya have shied away from the concept of financial resources and instead concentrated on financial management strategies (Omar, 2017), financial structure (Mwangi, 2016) and financial innovations (Otoo, 2013).

IV. RESEARCH METHODOLOGY

The study adopted explanatory and descriptive research designs. Descriptive research design was used because is analytical and pinpoints one variable factor or subject and describes it in detail while explanatory research design was used to investigate the effect and the cause of the relationship that exist among the study variables (Lewis, 2015). The study targeted a population of 309 being the management team of the 30 Credit Only Microfinance Institutions in Nairobi City County, Kenya. A sample of 171 respondents was selected using simple random sampling technique.

Both primary and secondary data were used in this study. Primary data was collected by use of semi-administered questionnaires. These questionnaires were open and close ended or semi structured. As Saunders (2011) notes, the open-ended questions allowed the respondents to give profound answers while close ended questions gave responses that are well structured that were easier to analyse and to draw conclusion from. Secondary data was collected through

document review from published records maintained by Credit Only Microfinance Institutions, AMFI Annual Reports, and other relevant financial and supervisory reports. Pilot testing was conducted to establish the validity and reliability of the research instrument which was found to be valid and reliable.

The collected data was analysed using the Statistical Package for Social Sciences (SPSS) Version 23. Quantitative data was analysed through descriptive statistics such as mean, frequencies and standard deviation. Tables and were used to present the results. For qualitative data content analysis was conducted and the results presented in form of narrative form as recommended by Saunders (2011). Simple regression analysis was used to determine the relationship between the performance and financial resources. Further, following the recommendations of Darlington and Hayes (2016), the researcher used regressions analysis to measure the effect of organisational resources on performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya. The study was based on the following regression equation;

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where: -Y= Performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya

β_0 =constant
$\beta_{1,}$ = Coefficient of Financial Resources
X_1 = Financial Resources
ϵ =Error Term

V. RESULTS AND DISCUSSIONS

The study targeted a sample size of 171 respondents from which 117 respondents filled in and returned their questionnaires making a response rate of 68%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting. He further states that a response rate of 60% is good. Since the response rate for this study was above 60% the study found it adequate for the analysis to be carried out. The response late for the senior management was 100% that of middle management was 66.7% while that of lower management 60.2%.

A. DESCRIPTIVE STATISTICS

The study sought to establish the effect of the various aspects of financial resources on performance of microfinance institutions in Nairobi City County. The respondents were also requested to indicate in a scale of 1-5 the extent that the various aspects of financial resources affect the performance of their microfinance institution where 5 represented very great extent while 1 represented no extent. He results are as shown in Table 1.

	N	Minimum	Maximum	Mean	Std. Deviation
It's the policy of this institution to always maintain adequate cash balances	117	1	5	4.11	0.707

	N				
Our institution has access to a wide range of loan facilities	117	1	5	4.05	0.864
This business always maintains a sound balance between long term and short-term assets	117	1	5	3.89	1.081
This firm has a retention policy which ensures the firm always has enough retained earnings.	117	1	5	3.62	0.817
Our credit ratings are within the recommended level	117	1	5	3.44	1.037
Our company can access business loans within a short period of time.	117	1	5	3.40	0.947
We are able to convert our marketable securities to liquid cash within a short period of time	117	1	5	3.15	1.205
Shareholders in this institution are always willing to provide more capital.	117	1	5	3.03	0.76
Our firm has attracted adequate ordinary share capital	117	1	5	2.98	1.05
This institution can raise adequate amount of credit whenever need be.	117	1	5	2.52	1.229
Aggregate				**3.419**	**0.9697**

Source: Field Data (2018)

Table 1: Descriptive Statistics on Financial Resources

The results in Table 1 above show that majority of the respondents indicated that it was their institution's policy to always maintain adequate cash balances with a means score of 4.11 and a standard deviation of 0.707, most institutions had access to a wide range of loan facilities as shown by a means score of 4.05 and a standard deviation of 0.864 and they always maintain a sound balance between long term and short-term assets as shown by a means score of 3.89 and a standard deviation of 1.081. It was also noted that most microfinance institutions have a retention policy which ensures the firm always has enough retained earnings as shown by a mean score of 3.62 and a standard deviation of 0.817, their credit ratings are within the recommended level as shown by a mean score of 3.44 with an associated standard deviation of 1.037 and that most microfinance institutions can access business loans within a short period of time as shown by a mean score of 3.40 with an associated standard deviation of 0.947. Further the results showed that most microfinance institutions were able convert their marketable securities to

liquid cash within a short period of time with a mean score of 3.15 and a standard deviation of 1.205, shareholders in this institution are always willing to provide more capital with a mean score of 3.03 and a standard deviation of 0.760, firm had attracted adequate ordinary share capital as shown by a mean score of 2.98 and a standard deviation of 1.050 while the institutions can raise adequate amount of credit whenever need be as shown by a mean score of 2.52 and a standard deviation of 1.229.

These results show that maintaining adequate cash balances, access to a wide range of loan facilities, maintains a sound balance between long term and short-term assets as well as a sound retention policy affected the performance of microfinance institutions in Nairobi City County to a great extent. It is also deduced that credit ratings, access to business loans within a short period of time, ability to convert marketable securities to liquid cash within a short period of time, shareholders always willingness to provide additional capital, attracting adequate ordinary share capital and raising adequate amount of credit whenever required affect performance of microfinance institutions in Nairobi city county to a moderate extent. In terms of magnitude, always maintaining adequate cash balances had the highest effect on performance of microfinance institutions in Nairobi City County. The aggregate mean score for financial resources was 3.419 with a standard deviation of 0.9697 which means that financial resources affected the performance of microfinance institution to a moderate extent.

The results of the study were found to be consistent with the findings reached by Otoo (2013) who found a significant relationship did exist between the performance and financial innovation of the banks. Siano, Kitchen and Giovanna (2010) investigating the convergent elements that exist between financial resources and performance in terms of corporate reputation, concluded that there exists a direct relationship between financial resources and performance. In addition, Omar (2017) also showed a positive and significant effect of financial management practices on performance of family business in terms of growth of revenues and change in net-worth.

The respondents were also requested to indicate the trend of the various aspects of performance of your microfinance institution for the last five years. The results were as shown in Table 2.

	N	Minimum	Maximum	Mean	Std. Deviation
Efficiency level	117	1	5	3.66	1.035
Net profit	117	1	5	3.55	1.055
Market share	117	1	5	3.42	1.011
Loan repayment rate	117	1	5	3.31	1.038
Retention rate	117	1	5	3.25	.899
Aggregate				**3.438**	**1.0076**

Source: Field Data (2018)

Table 2: Descriptive Statistics for Performance

The results in Table 2 above showed that most respondents were of the opinion that efficiency level and net profit level in the microfinance institution improved as shown by a mean score of 3.66 and 3.55 and a standard deviation of 1.035 and 1.055 respectively. However, the study found that market share, loan repayment rate and retention rate remained

constant as shown by a mean score of 3.42, 3.31and 3.25 with associated standard deviation of 1.011, 1.038 and 0.899 respectively. The study also observed that the aggregate mean score fore performance was 3.438 with a standard deviation of 1.0076 meaning that most respondents believed that the performance of their firm had remained relatively constant.

B. REGRESSION ANALYSIS

The study conducted multiple regression model at 95 percent confidence level (α =0.05) with performance as the dependent variable and financial resources as independent variable to determine the nature of the relationship that exist between the study variables. The results of the regression are as shown in Table 3, 4, and 5.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755[a]	.5700	.566	.398

a. Predictors: (Constant), Financial resources, physical resources, Human resources,
Source: Field Data (2018)

Table 3: Model Summary

The results in Table 3 show model summary. From the table it is observed that the correlation coefficient (R) between performance and financial resources was 0. 755 meaning that there was a strong positive correlation between the predicted and predictor variable. The table further shows the value of R Square (R^2) was 0. 570. This means that the model was able to predict 57.0% of the changes in performance.

The study also conducted Analysis of Variance (ANOVA) and the results are as shown in Table 4.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.150	1	24.150	152.442	0.000[b]
	Residual	18.219	115	0.158		
	Total	42.369	116			

a. Dependent Variable: Performance
b. Predictors: (Constant), Financial resources
Source; Field Data (2018)

Table 4: ANOVA[a]

The results in Table 4 show that the F statistic was 152.442. The F-statistic is found to be greater than F-critical (3.9236). Therefore, based on the F value the study concludes that the model was fit in predicting performance. The table also shows a significance level of 0.000 which is less than the 0.05 significance level. Therefore, based on the P-value the study also concludes that the model was fit. The coefficients of the regression model as shown in Table 5.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.326	.424		5.487	.000
Financial resources	.325	.123	.239	2.641	.009

a. Dependent Variable: Performance
Source; Field Data (2018)

Table 5: Coefficients[a]

The final regression was estimated as follows:

Performance = 1.322 + 0.601Financial Resources + ϵ

The results in Table 5 show that the constant had a coefficient of 2.326, financial resources had a coefficient of 0.325. These results show that if resources were absent performance of credit only microfinance institutions in Nairobi City County would be 2.326. The results also imply that if all other factors were held constant, increasing financial resources by one unit would result in 0.325 increase in performance. The results further show that the t-statistics for financial resources was 2.641 which was found to be greater than the t-critical of 1.6582. Thus, based on t-values, the study concluded that financial resources were significant in predicting performance of credit only microfinance institutions in Nairobi City County.

VI. CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was to determine the effect of financial resources on performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya. The study concluded that financial resources affected their firm's performance to great extent. It was also concluded that maintaining adequate cash balances, access to a wide range of loan facilities, maintains a sound balance between long term and short-term assets as well as a sound retention policy affected the performance of microfinance institutions to a great extent. The study further concluded that credit ratings, access to business loans within a short period of time, ability to convert marketable securities to liquid cash within a short period of time, shareholders always willingness to provide additional capital, attracting adequate ordinary share capital and raising adequate amount of credit whenever required affect performance of microfinance institutions to a moderate extent

The study therefore recommends that the management of microfinance institutions in Kenya should manage their financial resources optimally to maximise their performance. In particular, they should ensure that the firm maintains adequate cash balances, maintain sound relations with lenders so that they can access to a wide range of loan facilities and business loans, maintains a sound balance between long term and short-term assets and maintain a sound retention policy. Further the management should ensure that they maintain proper credit ratings, hold reasonable marketable securities that can be convert to liquid cash within a short period of time, maintain good relations with shareholders so that they are always willingness to provide adequate ordinary share capital credit whenever required. The study suggests that other studies should be conducted on other deposit taking microfinance institutions and other financial institutions such as commercial banks to establish if similar results would be obtained. The study thus suggests that others studies should be conducted covering longer periods.

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