FACTORS AFFECTING FINANCIAL PERFORMANCE OF DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY

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STUDENT DECLARATION

This thesis is my original work and has not been presented for a degree or any other award in any other University.

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DEDICATION

This study is dedicated to my lovely wife Pauline Maina who has stood with me since I expressed my desire to go back to school. She has selflessly sacrificed her time and finances to ensure I realize my goal. I also wish to recognize my son and friend Jedd Prince who is such a joy to us as a family. He ensures I get a smile every time I go home after a long day of hard work.

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I acknowledge God who has given me the ability and finances needed to complete this work. I thank my supervisors Prof. Beatrice Warue & Dr. Jane Kibanga for their helpful assistance they have given me. The Lord bless you.

ABSTRACT

The purpose of this study was to examine the factors affecting Deposit Taking Microfinance Institutions' financial performance in Nairobi County. Research was guided by the following research objectives: Does technological innovation affect microfinance institutions performance in Nairobi; Does accountability in leadership affect microfinance institutions performance in Nairobi; Does leadership structure affect microfinance institutions performance in Nairobi; Does capital structure affect microfinance institutions performance in Nairobi? The study adopted a quantitative research methodology and a descriptive design. The target population was 132 from which a sample of 132 was to be selected through a census method. A Likert scale type questionnaire was used to collect data from the subjects. This was distributed by the researcher to twelve DTMFIs within Nairobi County with an exclusion of one which requested not to be part of the study. A sample of 103 participants out of the 132 took part in the study. The findings revealed that technological innovation has significant (β=.192, while p = 0.018) relationship with financial performance of DTMFIs in Nairobi County. Further the findings revealed that leadership accountability has no significant (β= -.028, whereas p = .324) relationship with financial performance of DTMFIs in Nairobi County. In addition, the findings revealed that leadership styles has significant (β=.350, while p = 0.002) relationship with financial performance of DTMFIs in Nairobi County. Lastly the findings revealed that resource allocation has a significant (β=.344, while p = 0.002) relationship with financial performance of DTMFIs in Nairobi County.

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DEFINITION OF TERMS

Microfinance: A broad set of financial services tailored to fit the needs of poor individuals.

Microfinance Institution: A microfinance institution is an organization that offers financial services to low income populations.

Deposit Taking Microfinance Institutions: A deposit taking microfinance, also known as microfinance bank is an institution that is licensed by the Central Bank of Kenya to take deposit or cash from persons.

Non-deposit taking microfinance institutions: A non-deposit taking institution, also known as a credit only entity is an institution that does not take any form of deposit or cash collateral from any person.

Microfinance Institutions performance: The ability of microfinance institutions to cover operating expenses by its operating revenues. That means profitability and financial viability of MFIs.

Technological Innovation: Refers to the process in which a new idea is embodied in tools, devices or procedures that are of practical value to society.

Leadership Accountability: The obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner.

Leadership styles: These are the behavioral patterns that a leader adopts to influence the behavior of his followers, i.e. the way he gives directions to his subordinates and motivates them to accomplish the given objectives.

Resource Allocation: Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals.

ABBREVIATIONS AND ACRONYMS

AMFI-K:	Association of Microfinance Institutions – Kenya
CBK:	Central Bank of Kenya
DTMFI:	Deposit Taking Microfinance Institution
DTMs:	Deposit Taking Microfinances
IRB :	Institutional Review Board
MFIs:	Microfinance Institutions
NACOSTI:	National Commission for Science, Technology, and Innovation
PLC:	Public Liability Company
SMEP:	Small and Micro Enterprise Programme
WACC:	Weighted Average Cost of Capital

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents the background of the study, the statement of the problem, objectives and research questions, significance of the study as well as the scope of the study on the factors affecting financial performance of deposit taking microfinance institutions in Nairobi County.

1.2 Background of the Study

An estimated 1.7 billion people around the world don't have access to financial services (Teeboom, 2019). According to Lee (2017), microfinance institution is a financial institution that provides small loans to people who otherwise wouldn't have access to credit. The definition of "small loans" depends on the geographic context (Lee, 2017). The purpose of microfinance is to finance the livelihood, health care, housing improvements, small business creation, and other needs in under-served populations, specifically poverty and near-poverty level individuals worldwide (Teeboom, 2019).

Microcredit, pioneered by Muhammad Yunus, founder of Grameen Bank in Bangladesh and winner of the 2006 Nobel peace prize, has been promoted by development agencies as a route to self-improvement for very poor families considered too risky by traditional banks (Dawson, 2015). In 2005, the United Nations declared the International Year of Microcredit. This was when the clamour for financial inclusion was becoming more recognized, the declaration

brought microfinance from the periphery of finance and offered an estimated 2.5 billion people an opportunity to grow thriving businesses and, in turn, provide for their families, leading to strong and flourishing local economies. Arguably, the microfinance movement is vital to the development agenda. The success of the movement in a country like Bangladesh, where there are 20 million micro-borrowers, has shown that microfinance can lift millions out of abject poverty (Njiraini, 2015).

Microcredit fell well short of its promise, and there was no clear evidence it reduces poverty according to economic studies spanning four continents and seven countries conducted between 2003 and 2012. Business profits, household living standards, women's empowerment and poverty levels were little changed for entrepreneurs who took out loans. Demand for loans was weaker than bankers expected and there was no sign of more money spent on child welfare, Economists said in an overview (Dawson, 2015).

In sub-Saharan Africa, governments now appreciate the impact of microfinance and have enacted favorable laws, encouraged investments, opened up the industry to foreign capital and improved policing mechanisms to protect customers. The growth of the industry is a testament to the high demand for microcredit. Microfinance has become a lifeline for low-income earners in countries like Benin, Rwanda, Senegal and Tanzania, who are largely in informal sectors. Despite the impressive growth of microfinance in Africa, its impact in alleviating poverty remains relatively marginal, some critics say. The industry still serves a small fraction of the population and offers loans that are expensive and short-term. Its impact has thus largely been on basic household units (Njiraini, 2015).

Financial system in Kenya is identified by the co-existence of formal and informal financial markets. The formal financial markets, which mainly comprise commercial banks, development banks and credit institutions mainly exist in urban areas and offer a narrow range of financial services. A wide range of microfinance institutions have, however, existed for many years in both the rural and urban Kenya to respond to the resource gap in the market thereby contributing to economic growth. Microfinance is even more being considered as one of the most effective tools of reducing poverty by enabling microcredit to the financially challenged. It has an important duty in bridging the gap between the formal financial institutions and the economically poor. The microfinance Act enacted in 2006 aims at providing a level playing field and appropriate legal, regulatory, and supervisory framework for the microfinance industry. Microfinance industry in Kenya is experiencing a paradigm shift as MFI groups use group members as collateral substitutes where members repay microloan for colleagues who defaults (Warue, 2015, p. 14).

Report from the Central Bank of Kenya indicates that microfinance banks' profit before tax decreased by 169 percent from KShs. 549 million for the period ended December 2015 to a loss of KShs. 377 million for the period ended December 2016. The decline in profitability in the sector was largely attributed to reduction of financial income by 27 percent or KShs. 3.9 billion in 2016 (Central Bank of Kenya, 2017). The business dictionary describes financial performance as measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added etc. Financial performance is one of the indicators used to measure the success of an MFI in terms of its financial returns. It is often considered a

yardstick used by investors to conduct due diligence and assess the status of an investment; it is also used as a tool by government supervisors to assess compliance with regulatory measures and monitor the overall health of the financial sector. Sound finances and good returns are important indicators of success (CGAP, 2014).

According to Joanna Ledgerwood (1999) sound microfinance activities based on the best practices play a decisive role in providing the poor with access to financial services through sustainable institutions (Ledgerwood, 1999, p. 4). However, small to medium-sized MFIs in Kenya face many challenges to growth. They include the lack of clear and actionable strategic plans, the need for strategic leadership development, and a range of operational issues (Robles, 2011). This therefore calls for a research to be carried out to cater for proper management and how it impacts on the financial performance of the DTMFIs in Nairobi.

1.2.1 Microfinance Institutions Profile in Kenya

Since the mid-90s there has been a notable growth in the microfinance banks in Kenya, including the regulatory bodies that govern them. The intention for most of those changes has been to enhance customer experience and make the institutions the excellent lending option for Kenyans. Aswani notes that with the high demand for access to credit experienced in the country, lots of microfinance banks have entered the industry, all offering a set of distinct services to gain an edge in the competitive financial industry (Aswani, 2018).

The microfinance sector in Kenya is one of the most vigorous in Sub-Saharan Africa. It includes a diversity of institutional forms and a fairly large branch network to serve economically active, albeit low income earners. The business takes different forms ranging from microfinance banks (regulated by

CBK), institutions that are registered as non-governmental organizations, church based microfinance institutions, merry- go- round groups, rotating savings and credit associations , accumulative savings and credit associations as well as investments groups. The sector's umbrella body is the Association of Microfinance Institutions – Kenya (AMFI-K) (Gichuki, 2018).

The microfinance Act enacted 2006 was intended to provide a level playing field and appropriate legal, regulatory, and supervisory framework for the microfinance industry. The institutions can be broadly classified into, regulated MFIs, commercial banks and unregulated MFIs. Central Bank of Kenya (CBK) regulates MFI banks and Deposit Taking Microfinances (Warue, 2015).It is the work of CBK to license and regulate the DTMFIs to mobilize savings from the general public, hence promoting competition, efficiency and access. Non-deposit taking MFIs, categorized as credit only entities, are not regulated by the CBK as they lend their own funds (Nyakinda, 2019). The researcher focused and researched on the DTMFIs in Nairobi County. See the Appendices.

1.3 Statement of the Problem

Lack of capital is the main challenge the poor households face and if it can be addressed it is possible for those households to break free from persistent poverty. Microfinance institutions promise to break the vicious chain of poverty, thereby unlocking the household labor. However, the MFIs are also facing many challenges, both within and without factors that could lead to uncertain times. They include financial instability, uncontrolled growth, systemic frauds, bureaucracy, credit rating attainment and methodological flaws (Aswani, 2018). The interest rate charged by MFIs has remained high years after they were

allowed to collect deposits from the public to help lower the cost of funds. Not many of the poor who are meant to benefit from these institutions find the financial freedom. The MFIs no longer seem to serve the role of their existence which is to address the needs of economically marginalized people by offering affordable credit services. The researcher intends to provide an insight into the factors affecting financial performance of DTMFIs in Nairobi.

1.4 Objectives of the Study

1.4.1 General Objective:

To identify the factors affecting financial performance of deposit taking microfinance institutions in Nairobi.

1.4.2 Specific Objectives:

i). To find out whether technological innovation affects financial performance of deposit taking microfinance institutions in Nairobi.

ii). To ascertain whether leadership accountability affects financial performance of deposit taking microfinance institutions in Nairobi.

iii). To examine whether leadership style affects financial performance of deposit taking microfinance institutions in Nairobi.

iv). To establish whether resource allocation affects financial performance of deposit taking microfinance institutions in Nairobi.

1.5 Research Questions

i). Does technological innovation affect financial performance of deposit taking microfinance institutions in Nairobi County?

ii). Does leadership accountability affect financial performance of deposit taking microfinance institutions in Nairobi County?

iii). Does leadership style affect financial performance of deposit taking microfinance institutions in Nairobi County?

iv). Does resource allocation affect financial performance of deposit taking microfinance institutions in Nairobi County?

1.6 Scope of the Study

The study was confined to the factors affecting financial performance of deposit taking microfinance institutions in Nairobi County. The study also used quantitative approaches only. The researcher limited the study to microfinances located within Nairobi County only. That means the branches of the MFIs under consideration which are located outside Nairobi County were excluded in this research.

1.7 Justification of the Study

The study will be both beneficial to the microfinance organizations and to the clients. To the microfinance the study will inform them on the areas they need to improve on. While to the clients when the microfinance to determine area, they need to improve on, it will lead to the availability of finances to its clients.

1.8 Limitations of the Study

Since the researcher adopted the Census as the sampling method, some of the subjectsof the Target population were unavailable to provide the needed data because of the challenges posed by the COVID-19 pandemic regulations put in place by the Ministry of Health in our countrywhich encouraged people to keep social distance and to have minimal human contacts as possible, thus encouraging employees to work from home unless providing essential services only.

1.9 Research Delimitations

Considering that DTMFIs are many and have branches located all over the country, the researcher limited his population target to those located within Nairobi County and therefore did not include branches of the DTMFIs under consideration which are located outside Nairobi County because of large geographical area since they're located all over Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the study, background and other factors affecting the performance of DTMFIs around the globe. Emphasis has been put on reviews that highlight the background of DTMFIs, the theories underpinning DTMFIs, technological innovation, corporate governance, and equity availability.

2.2 Theoretical Review

Microfinance has progressed as an economic development approach intended to benefit low-income women and men. The term "microfinance" refers to the provision of financial services to low-income clients, including the self-employed. Microfinance arose in the 1980's as a response to doubts and research findings about state delivery of subsidized credit to poor farmers (Ledgerwood, 1999). In those years the subsidized credit and targeted credit model supported by many donors was the subject of criticism because most programs accumulated large loan losses and required frequent recapitalization to continue operating. Market based solutions were required (Warue, 2015).

In recent years, the use of microfinance as an innovative tool for poverty alleviation among people who are economically active but financially constrained and vulnerable has gained increasing attention by both policy makers and

regulators in many countries. The financial performance of a MFI can be defined as "its ability to cover its operational and financial costs" (Kharti, 2014, p. 4).

2.3 Complexity Theory

Complexity theory is a set of theoretical frameworks used for modeling and analyzing complex systems within a variety of domains. Since its emergence during the seventies and eighties, complexity theory has been used in many different areas where it is proving quite relevant, given the rise of complexity brought about by globalization, IT and growing environmental awareness. Complexity science is the application of the models from complexity theory to various different domains of science. Complexity science is emerging as the most coherent post-Newtonian framework within contemporary science (Colchester, 2016).

It is widely thought that complex systems are virtually impossible to control or predict with any great accuracy due to the number of their components, the degree of nonlinear interaction, and co-evolution that produces the emergence of unforeseen structures as the system evolves(Park, 2017). Thus, as opposed to traditional methods of management that try to predict and control the outcomes through direct intervention, complexity management takes a more holistic approach, focusing more on creating the systemic conditions for success to emerge.

Systems design is the application of systems theory and complexity theory to the design of technical systems. Systems design takes a holistic interdisciplinary approach to the development of complex projects to incorporate both social and technical factors whilst understanding product or technology

within a whole life cycle perspective (Colchester, 2016). Complexity theory can provide awareness into how organizations become more sustainable, adaptive, and innovative (Park, 2017).

2.4 Transformational Leadership Theory

Transformational leadership is a relatively recent approach to leadership which focuses on how leaders can create valuable and positive change in their followers. James MacGregor Burns first introduced the concepts of transformational leadership when studying political leaders, but this term is now used when studying organizations as well. Burns described two leadership styles: transactional and transformational. Transactional leaders focus on gaining compliance by giving and withholding rewards and benefits. Transformational leaders focus on transforming others to support each other and the organization (Burkus, 2010).

Over the last ten years, researchers have focused on transformational leadership as being an effective leadership strategy to implement within public and private sector organizations. Transformational leaders work with their employees to implement change. Transformational leaders create a vision for their followers and guide the change through inspiration and motivation. These types of leaders are excellent role models, and their followers emulate many of their actions. They also inspire through activating followers' self-efficacyso that followers believe that they can go beyond expectations (Towler, 2019).

Transformational leadership style is a leadership style that can inspire positive changes in those who follow. These positive changes may result in enhancing employees' performance which will result in overall organization

growth. Researchers have found that this style of leadership can have a positive effect on the group. Research evidence clearly shows that groups led by transformational leaders have higher levels of performance and satisfaction than groups led by other types of leaders (Cherry, 2020). Transformational leaders allow themselves to be held accountable and also hold their employees accountable too. Being accountable and holding others accountable is two-fold in transformational leadership. Holding yourself accountable is idealized influence and holding others accountable is a key component of the 'high' expectations in inspirational motivation (Wink, 2012).

2.5 Theory of Resource Allocation

Resource allocation is the process whereby an organization determines how to apportion its production factors among the various productive activities in which it aims to engage. Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals. Resource allocation includes managing tangible assets such as hardware to make the best use of softer assets such as human capital (Rouse, 2014). A resource can be considered any factor of production, which is something used to produce goods or services. Resources include such things as labor, real estate, machinery, tools and equipment, technology, and natural resources, as well as financial resources, such as money. Resources are maximally allocated when used to produce goods and services that match consumers' needs at the lowest possible production cost. Efficiency of production means fewer resources are expended in producing goods and services, which allows resources to be used for other economic activities, such as further production, savings, and investment. This

basically boils down to creating what customers want as cheaply and efficiently as possible (Grimsley, 2020).

Resource allocation involves processes and strategies. Resource allocation begins at strategic planning when a company formulates its vision and goals for the future. Quoting Grimsley, “The vision and strategic goals are accomplished through achievement of objectives. Once you have set your objective, you will need to allocate sufficient resources to accomplish it. In practical terms, this is often a matter of project budgeting” (Grimsley, 2020). By having MFIs modify their way of allocating resources, this would enable the implementation of strategic plans which in turn will influence their financial performance. Corporates’ highest priority is to create long-term value, which requires resources be allocated to businesses, products and customers that can deliver profitable growth. Corporate success often falters due to suboptimal Strategic Resource Allocation (SRA), which includes the allocation of capital, marketing, and R&D across existing businesses, but also acquisitions, debt repayment, dividends and buybacks (Milano &McTaggart, 2018). Figure 2.1 demonstrates the theoretical framework used in this study.

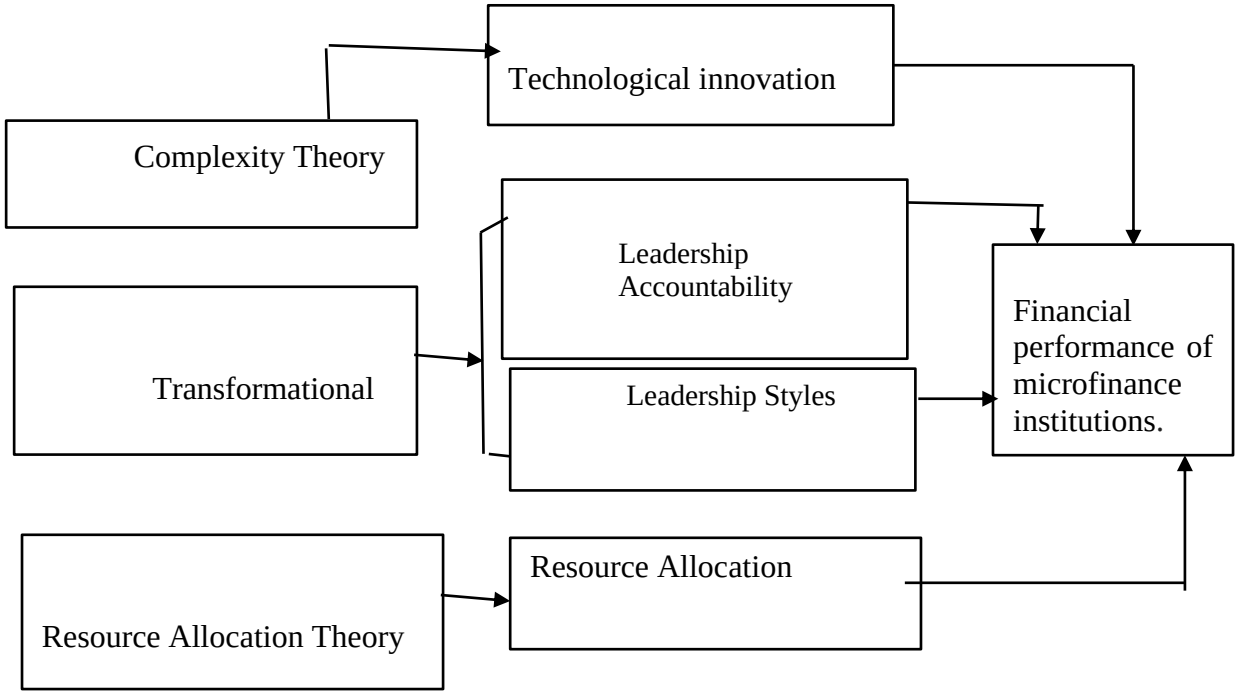

Figure 2.1 Theoretical Framework

2.6 Empirical Review

2.6.1 Technological Innovation

Innovation is the application of new solutions that meet new and existing requirements, in articulated or existing market needs (Chaarani & Abiad, 2018). This can be accomplished through new effective products, processes, services, technologies, or ideas that are readily available to markets, governments, and society (Chaarani & Abiad, 2018). Practically, technological innovation refers to the process in which a new idea is incorporated in tools, devices, or procedures that are of practical value to society. Typically thought of as a new product, technological innovation may also be a new process of production; A substitution of a cheaper material, newly developed for a given task, in an essentially unaltered product; or the reorganization of production, internal functions, or distribution

arrangements, leading to increased efficiency, better support for a given product, or lower costs (Tornatzky & Lemer, 1992).

The purpose of innovation is to come up with new ideas and technologies that increase productivity and generate greater output with the same input (Kylliäinen, 2019).

Technological innovation is a key factor on the firms' competitive advantage as well as a critical element in improving the economic and financial results of firms. Indeed, increased economic and financial performance have been observed among firms capable of using innovation to improve their processes or differentiate their products and services in relation to their competitors. During the present period of globalization and technological progress, the banking sector must upgrade its management system by using updated information and communication tools. Moreover, banks must use technological innovation to improve their performance level by attracting new customers and satisfying them (Chaarani & Abiad, 2018).

Information and communication revolution in technologies is key to developments in the banking and financial services industry. Most banking industry analysts include technological change on the short list of important factors underlying the dynamics in banking industry structure and performance. For example, improvements in information management are playing a key role in enabling banks to take advantage of expanded powers and reductions in geographic restrictions. More complete and speedier access to customer information is allowing banks to manage complex customer relationships more effectively and to "cross-sell" additional financial services. The ability to deliver

new advanced technology products reliably has become a central theme in the marketing strategies of a growing number of banks (Furst et al., 1998).

A bank that is advancing to grow has to be ready to adjust to the evolving economic, financial, and productive context. This research argues about the influence of the advancement and complexity of emerging technologies on the structural and behavioral elements meant as financial criticalities and requirements restricting the strategic development options of banks (Campanella et al, 2017). Bell notes that today's customers are digital savvy. Increasingly, they expect banks (and all other providers of financial services) to respond to this irresistible and inevitable trend. To do this calls for the successful bank of the future to build around technology, fundamentally accelerating capabilities by streamlining every traditional core service - money management and movement, lending, investments, and savings. By driving the essential change to digital, banks have an enormous opportunity to engage with customers more meaningfully than ever before, embracing true customer centricity to enhance services, and using data to understand customer needs to predict behaviors (Bell, 2018).

Technology in business is a growing necessity. Therefore the successful exploitation of new ideas in technological innovations is crucial to a business being able to improve its processes, bring new and improved products and services to markets, increase its efficiency, and, most importantly, improve its profitability. To remain successful, innovative microfinance businesses must be able to keep their operations, services and products relevant to their customers' needs and changing market conditions.

2.6.2 Leadership Accountability

Kulakov (2020) defines accountability as the obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner (Kulakov, 2020).Taking personal accountability demands that the leaders be willing to answer for the outcomes of their choices, their behaviors, and their actions in all situations in which they are involved. Accountable leaders do not shift the blame to others. According to Hannah Price (2020), when a leader lacks accountability it breeds resentment, it shatters trust and respect, it also sets a poor example to the employees. A culture of accountability fosters self-reliance and confidence (Hickman, 2017). Employees don't need to be micromanaged when accountability permeates an organization at every level. Rather than managers bestowing tasks for employees to belabor, an accountable employee sees responsibilities as challenges to meet and problems to solve (Price, 2020).

Loew (2014) says that accountable leaders are built by the adoption of at least 4 separate strategies: Accountability starts with honesty; Honest leaders become accountable by reviewing their own role in a situation and devising a reasonable solution to resolve issues, conflict, and challenges in an authentic and genuine fashion, Accountable leaders voluntarily say, ‘I’m sorry’ when something has gone awry and they are responsible for the wrongdoing; Accountable leaders seek input from others – bosses, peers, direct reports, friends and partners – about how something that didn’t go so well could have gone better. Accountable leaders do not take on responsibility, they do not postpone, and they do not under or over commit. They know when to say no and they know when to ask for more. In this

way, accountable leaders provide their own insurance that they won't let promised work go undone (Loew, 2014).

Accountability requires a personal understanding of our own role and responsibilities, our individual performance goals, including standards to measure success, our major obstacles to fulfilling responsibilities and the needs and ways that we are required to perform successfully. Cantero-Gomez notes that effective leaders at all levels understand the importance of two-way accountability and acts accordingly (Cantero-Gomez, 2019).

Kraines (2016) argues that as a managerial technique, holding people accountable after casually tossing a goal or task to them without setting the context, securing the necessary resources, and providing the proper structure is destructive. It generates negative emotions and behaviors and a widespread negative response to the proper and requisite notion of accountability. Nevertheless, accountability leadership is crucial for managers to move forward to more productive ways of doing business (Kraines, 2016).

When an organization lacks the individual and group accountability needed to achieve the desired outcomes, it's your leaders who are to give the way forward. Leaders set and deliver the vision to their employees in a way that not only explains why it's important, but how they can contribute to it as individuals. Like any other organizational standard, leadership must model it themselves in personal accountability if that's what is expected of them. Without this commitment from leadership, it's unreasonable to expect that others will hold themselves personally accountable for their work (Cornett, 2019).

Accountability is probably the single most important element fueling truly successful organizations (Gleeson, 2016).

Hall (2019) says that when everyone from the top to the bottom follows through on promises, doesn't blame others for mistakes, and supports others in achieving goals, it creates a healthy and positive work culture. As a result, this breeds trust and enhances productivity. He further argues that accountability promotes engagement and ownership because everyone clearly knows what his or her responsibilities and expectations are. Thus it helps employees in being compliant with both established and new company guidelines, laws, regulations, and standards (Hall, 2019).

Even though leadership accountability is not easy, it can be taught through example by leaders who practice the principles they want their team to follow. So as to make the real difference in the business, a leader need to be the role model for accountability and nurture a caring mindset across the whole business.

2.6.3 Leadership Styles

Leadership style is the manner and approach of providing direction, implementing plans, and motivating people (Clark, 2015). As seen by the employees, it includes the pattern of explicit and implicit actions performed by the leader. The first major study of leadership styles was performed in 1939 by Kurt Lewin who led a group of researchers to identify different styles of leadership (Clark, 2015).The leadership styles can either be classified on the basis of behavioral approach or situational approach (Megha, 2016). There are several leadership styles, however the researcher would like to classify them into three main groups as follows: The first style is authoritarian or autocratic style. This

style is used when leaders tell their employees what they want done and how they want it accomplished, without getting the advice of their followers. Some of the appropriate conditions to use this style is when you have all the information to solve the problem, you are short on time, and/or your employees are well motivated (Clark, 2015).

The second style is participative or democratic style. The Leader considers the input of each team member before making a decision. The say of each employee is important in a project's direction in guiding the leader to make the final call. Becker argues that democratic leadership is one of the most effective leadership styles because it allows lower-level employees to exercise authority they will need to use wisely in future positions they might hold. It also resembles how decisions can be made in company board meetings (Becker, 2020).

The third leadership style is called delegative or Laissez-faire leadership. Here, the employees make the decisions as allowed by their leader. However, the leader is still liable for the decisions that are made. This is used when employees are in a position to examine the situation and come up with what needs to be done and how to do it. You cannot do everything! You must set priorities and delegate certain tasks (Clark, 2015). A good leader uses all the three styles, depending on what forces are involved between the followers, the leader, and the situation (Clark, 2015). There is a considerable impact of the leadership styles on organizational performance. The leadership style influences the culture of the organization which, in turn, influences the organizational performance (Khajeh, 2018).

According to Becker (2020), leaders can carry a mix of leadership styles depending on their industry and the obstacles they face. There are six action logics

that can help assess how leaders interpret their surroundings and react when their power or safety is challenged: the individualist –this is self-aware, creative, and primarily focused on their own actions and development as opposed to overall organization performance. This action logic is exceptionally driven by the desire to exceed personal goals and constantly improve their skills. Strategist – strategists are acutely aware of the environments in which they operate. They have a deep understanding of the structures and processes that make their businesses tick, but they're also able to consider these frameworks critically and evaluate what could be improved. Alchemist – this is the most highly evolved and effective at managing organizational change. They have the unique ability to see the big picture in everything, but also fully understand the need to take details seriously. Under an alchemist leader, no department or employee is overlooked. Opportunist – they are guided by a certain level of mistrust of others, relying on a façade of control to keep their employees in line. Diplomat – unlike the opportunist, the diplomat isn't concerned with competition or assuming control over situations. Instead, this action logic seeks to cause minimal impact on their organization by conforming to existing norms and completing their daily tasks with as little friction as possible. Expert – the expert is a pro in their given field, constantly striving to perfect their knowledge of a subject and perform to meet their own high expectations. However, this action logic does lack emotional intelligence, which is central to many good leaders (Becker, 2020).

A leader of an organization should have the ability to maintain good interpersonal relations with the employees or subordinates and motivate them to help in achieving the organizational objectives.

2.6.4 Resource Allocation

Resource allocation is the process of assigning and managing assets in a manner that supports an organization's strategic goals (Rouse, 2014). It includes managing tangible assets such as hardware to make the best use of softer assets such as human capital. Resource allocation involves balancing competing needs and priorities and determining the most effective course of action in order to maximize the effective use of limited resources and gain the best return on investment. In practicing resource allocation, organizations must first establish their desired end goal, such as increased revenue, improved productivity or better brand recognition (Rouse, 2014). According to Guthrie (2019) a resource is an asset that can be used by a person or organization in order to function effectively. Therefore, resource allocation is about organizing your resources (people, tools, deadlines, budget) across different tasks to work towards completing the job (Guthrie, 2019).

Resource allocation helps in choosing the best available resources for your project/organization and managing them throughout the work, so you can avoid under or overutilization of your employees (Hałabuda, 2018). Resource allocation—part art, part science as some call it—is recognizing the best available resources for the project, assigning them to your team and monitoring their workload throughout the work, and re-assigning resources if needed. When resources are properly allocated there's an increase in the effectiveness of available resource usage in the company to maximize their (Hałabuda, 2018).

Janse (2020) argues that efficiently allocating resources to the right places is complex and often hampered by a number of factors, including scarcity, financial criteria, organizational politics, ambiguous objectives, risk aversion, and a lack of knowledge and information (Janse, 2020). Scarcity refers to a

foundational economic problem: the gap between scarce resources and the theoretically limitless need and desires of consumers. The situation requires that people such as managers and entrepreneurs make choices about how to effectively allocate resources to supply as many consumers as possible with their basic needs, as well as many additional desires as possible. Resource allocation in the workplace is often the diligent allocation of resources to tasks based on requirements, skills, and timelines. To ensure resources are allocated efficiently, Janse (2020) offers the following tips:

Apply redistribution – make room for strategic redistribution. Strategic reallocation means looking for alternatives to get some extra manpower who can take on more responsibility. This is essential to employ staff optimally. Diversify – it's always good to have resources and staff equipped with a broad range of skills, or who are used to performing different tasks. Therefore, it's hugely important that managers recognize and cherish both primary and secondary skills. This is also good for the employees themselves. Nobody likes to stagnate, and employees will be motivated when given the opportunity to diversify and grow. Stimulate automation –streamline the process of allocating new tasks to make it easier to monitor which resources were allocated to which department. This prevents the confusion that can arise when resources cannot be traced. Lastly, Strive for optimal use of resources – this means a healthy resource-allocation process. When the use and allocation level of resources is optimal, this means that under no circumstances are too many or too few resources being used. As a result, the output produced by the company is created as efficiently as possible (Janse, 2020).

Resource allocation is a critical part of managing any organization. By ensuring that the resources are optimally allocated, this will provide a complete picture of an organization's capabilities and hence ensure maximum profitability for the organization, and fulfilment of the employees in their career.

2.6.5 Financial Performance of DTMFIs

Financial performance is one of the signals used to measure the success of an MFI in terms of its financial returns. Verma (2020) defines financial performance as the process of measuring the results of a firm's policies and operations in monetary terms. This means the firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry. (Verma, 2020).

Sound finances and good returns are key indicators of success; however, social performance is another increasingly important benchmark used to assess many institutions. Financial key performance indicators fall under a variety of categories, including profitability, liquidity, solvency, efficiency and valuation. By understanding these metrics, one can be better positioned to know how the business is performing from a financial perspective, and therefore use this knowledge to adjust the goals of the organization or department and contribute to critical strategic objectives.

Figure 2:2 demonstrates the conceptual framework of the study as per the four objectives, independent variables and dependent variable.

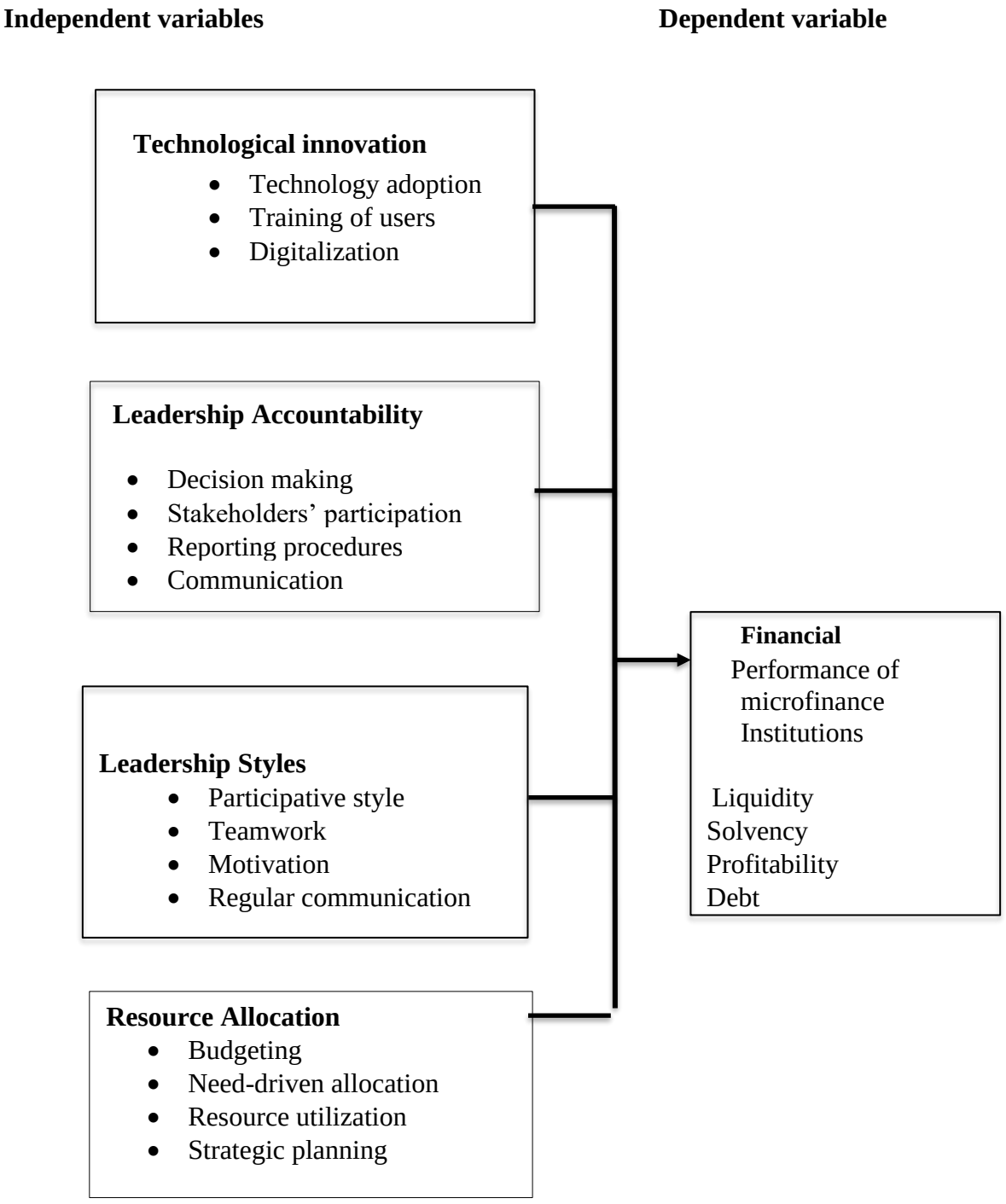

Figure 2:2 Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

As a reminder, the purpose of this study was to investigate factors affecting financial performance of deposit taking microfinance institutions in Nairobi County. The study investigated four major variables as follows: technological innovation, leadership accountability, leadership styles and resource allocation. This chapter discusses the research design, target population, sampling procedure, Data collection instruments, methods of data collection and methods of data analysis.

3.2 Research Design

The study adopted descriptive research methodology as discussed by McCombes, (2019) in examining the factors that determine performance of Deposit Taking MFIs in Nairobi. A descriptive survey design was used to collect primary data as discussed by McCombes, (2019). Descriptive methodology was more appropriate because the researcher's focus was to understand the practice in various institutions of DTMFIs. This was done to enable the researcher to find out the different views of the respondents. Quantitative approach was used to collect data and eventual analysis of the study. It is worth noting that the questions were analyzed using quantitative analysis techniques.

3.3 Target Population

Thirteen DTMFIs in Nairobi County were targeted to be part of the study. However, one of the DTMFIs did not take part in study. The institution requested not to take part in the study. Therefore, there were only twelve DTMFIs that were involved in the study. The research chose the DTMFIs in Nairobi County because of convenience purposes and more importantly Nairobi has the largest number of DTMFIs which are representative of other Counties. 132 subjects of the population of Deposit Taking MFIs in Nairobi City. The study will therefore adopt census approaches because of the small number of the anticipated respondents.

3.4 Population Table

The researcher used a census method to arrive at a target population of 132 participants who completed the survey. Census method studies all members of a particular population. in the targeted DTMFIs within Nairobi County and therefore the Census method of statistical enumeration will be used. This is because the targeted population is manageable as shown in the Target Population Table below.

Table 3.1 Population Table

DT MFIs	C.E.O	Departmental Heads	Branch Managers	Credit Officers	Operation Officers	Front-Office officers	Frequency	Percentage
REMU	1	2	1	1	2	2	9	7
Faulu	1	3	3	4	4	3	18	14
KWFT	1	2	2	3	3	2	13	10
SMEP	1	3	3	3	4	2	16	12
Rafiki	1	3	2	4	3	3	16	12
Uwezo	1	3	1	2	3	2	12	9
Century	1	3	1	3	2	3	13	10
ZUMAC	1	2	2	1	3	3	12	9
Maisha	1	3	1	1	2	3	11	8
U&I	1	2	2	2	3	2	12	9
TOTAL							**132**	**100**

Source: Official MFIs Websites

3.5 Data Collection Instrument

A Likert Scale questionnaire was used to collect data. This is a type of rating scale used to measure attitudes or opinions. With this scale, respondents are asked to rate items on a level of agreement. For example: Strongly agree, Agree, Neutral, Disagree, strongly disagree. Five continuum scales are often used in the scale (Nachmias and Nachmias, 2008). It consisted of a series of questionnaires of Interval measurement in Likert Scale format and other prompts for the purpose of gathering information from respondents. The researcher also used an online Google form to reach some of the target population because of the limitations the researcher encountered because of coronavirus pandemic currently in Kenya and other parts of the world. The regulations put in place by the Ministry of Health encourage minimal human-to-human contacts.

3.6 Validity of Instruments

According to Mugenda and Mugenda (1999), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data represent the variables of the study. The research instrument was validated in terms of content and face validity. The content related technique measured the degree to which the questions items reflected the specific areas covered.

3.7 Reliability of the Instruments

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials. If a researcher administers a test to a subject twice and gets the same score on the second administration as the first test, then there is reliability of the instrument (Mugenda and Mugenda, 1999). The researcher measured the reliability of the questionnaire to determine its consistency in testing what they are intended to measure. The test retest technique was used to estimate the reliability of the instruments. This involved administering the same test twice to the same group of respondents who had been identified for this purpose

Table 3.2 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.769	.814	5

The reliability test using Cronbach Alpha gave a measure of .769 when converted into percentage it was 76.9% as a measure of internal consistency.

3.8 Data Collection Procedures

Data are pieces of information that can help us reach the research goal and can be either primary or secondary. The researcher intended first to identify issues and opportunities for collecting data in the said DTMFIs in focus. This was to help explore the organizational culture from a human rights and diversity perspective. The researcher intended to begin with the headquarter offices and seek audience with the management before visiting their branches within Nairobi County. The respondents were the employees of the DTMFIs stated above.

3.9 Data Analysis

Quantitative analysis was used since it allows the researcher to present findings in numerical form. The statistical tool used for quantitative analysis was the statistical package for Social Sciences (SPSS version 23). This is because it helps analyze presented descriptive statistics in the form of percentages, means and frequencies for general information. Regression analysis was used to determine the effect of microfinance institutions performance. Data was presented in the form of frequency tables, bar charts and pie charts. Data was checked for accuracy, uniformity, logical completeness, and consistency before analysis is done. The researcher applied the multiple regression equation which is

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i}$$

Where.

$\beta 0$ = Coefficient of the model

$\beta 1 - \beta 4$ = Beta Coefficient of dependent variables.

ϵ = Stochastic Error Term

Y - Financial Performance of Microfinance Institutions

B_0 - intercept coefficient

X_1 – Technological Innovation

X_2 – Leadership Accountability

X_3 – Leadership Styles

X_4 – Resource Allocation

β_1, β_2, β_3 and β_4 = regression coefficients

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

Chapter four presents the results and findings of the study considering the study objectives. The results and findings are based on the information generated from the participants. In presenting the results and findings, the researcher arranged them around in subsections as follows.

4.2 Demographic Characteristics

The demographic characteristics that were factored as important because they helped to explain the flow of the responses enhancing understanding of the factors affecting financial performance of deposit taking microfinance institutions.

4.2.1 Response Rate

A total of 103 questionnaires were returned out of 132 questionnaires that were administered to the participants. This denoted a 78 percent response rate. This was adequate for the study as shown in table 4.2.

Table 4.1: Response Rate

Variable	**Frequency**	**Percentage**
Filled in and Retrieved	103	78
Not Retrieved	29	22
Total	**132**	**100**

4.2.2 Gender

4.2.2 Gender

To analyze the level of gender involvement, the results exhibited that the majority of participants were female standing at 66% while male accounted for 33%. Also, there was 1% who preferred not to reveal their gender. Figure 4.3 below presents data regarding gender. This means that the data generated from the participants depicted the female participants' views could have overruled what the male could have observed had they had an equal representation.

Table 4.3: Gender

	Frequency	Percent
Male	34	33.0
Female	68	66.0
Prefer not to say	1	1.0
Total	103	100.0

Table 4.2: Gender

4.3 Descriptive statistics Results

4.3.1 Job Description in the Microfinance Organization

To find out the significance of the questions asked, the study analyzed the job description of the participants in the microfinance organization. Majority of the participants at 39.8 percent were in business development, while the percentage between the management and administrative staff was close. The management stood at 21.4% and the administrative staff at 28.2%. Only ten percent were involved in other services in the organization. Table 4.4 shows the description of the participants.

Table 4.3: Job Description

	Frequency	Percent
Management	22	21.4
Administrative staff	29	28.2
Business development	41	39.8
Other	11	10.7
Total	103	100.0

4.3.2 Number of Years in the Microfinance Organization

To make meaning out of the questions asked, the researcher analyzed the number of years the respondents had been in the microfinance organization. Majority of the participants shown by 42.7% had worked for a maximum of five years in the financial sector followed by 35.9% having an experience of 5-10 years, while 3.9% percent had less than a year experience and 16.5% percent had above ten years. Table 4.5 represents the experience of the participants in the microfinance sector.

Table 4.4: Number of Years in the Microfinance Organization

	Frequency	Percent
Less than 1 year	4	3.9
1-5 years	44	42.7
5-10 years	37	35.9
above 10 years	17	16.5
Total	103	100.0

4.3.3 Technological Innovation and Financial Performance

Table 4.5 Technological innovation and Financial performance

	Technological Innovation	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The management is keen on integration and use of new technology in this organization	49 (38%)	44 (42.5%)	4 (3.8%)	4 (3.8%)	2 (1.9%)
2	When there are new technological inventions users undergo training.	38 (36.9%)	49 (47.6%)	9 (8.7%)	1 (1%)	4 (3.8%)
3	The leadership is keen on using new digital technologies to do business better, faster, and cheaper	40 (38.8%)	40 (38.8%)	10 (9.7%)	3 (2.9%)	10 (9.7%)
4	The management has allocated resources and finance for technological innovations	42 (40.8%)	41 (39.8%)	9 (8.7%)	1 (1%)	10 (9.7%)

When the respondents were asked whether the management is keen on integration and use of new technology in their organization the responses were as follows: 38% strongly disagreed as 42.5%, as neutral 3.8% while those who respondents who disagreed formed 3.8% as the least group were 1.9%.

On whether users undergo training when there are new technological inventions the responses were as follows: strongly agree 36.9% followed by those who agreed with 47.6% then those who were neutral 8.7% as 1% disagreed and lastly 3.8% who strongly disagree.

If the leadership is keen on using new digital technologies to do business better, faster, and cheaper the responses were as follows: those who strongly agree and agree each had 38.8%, followed by those who were neutral at 8.7% followed

with those who disagreed at strongly disagreed at 3.8% then the least were those who disagreed at 1%.

On if the management has allocated resources and finance for technological innovations the following were the responses 40.8% strongly agreed , then those who agreed at 39.8% followed by those who were neutral at 8.7% as those who strongly disagreed were at 9.7% then who disagreed at 1%.

4.3.4 Leadership Accountability and Financial Performance

Table 4.6 Leadership accountability and Financial performance

	Leadership accountability	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The organization ensures financial planning for estimated revenues and expenditures is done	58 (56.3%)	31 (30%)	3 (2.9%)	1 (1%)	10 (9.7%)
2	The leadership ensures budgeting is based on need-driven allocations.	50 (48.5%)	38 (36.9%)	4 (3.9%)	5 (4.9%)	6 (5.8%)
3	The organization ensures that the available resources are well utilized	48 (46.6%)	40 (38.8%)	4 (3.9%)	1 (1%)	10 (9.7%)
4	Proper planning is followed in utilizing the available resources in the organization	48 (46.6%)	48 (46.6%)	2 (1.9%)	1 (1%)	4 (3.9)

On whether the organization ensures financial planning for estimated revenues and expenditures is done the responses were as follows 56.3% strongly agreed followed by those who agreed at 30%, then followed those who followed 9.7% then followed by those who were neutral 2.9% then those who disagreed at 1%.

When the respondents were asked if the leadership ensures budgeting is based on need-driven allocations the significant number 48.5% strongly agree,

followed by who agreed at 36.9% then those strongly disagreed at 5.8%, then those who disagreed at 4.9% the least were those who were neutral.

The responses on whether the organization ensures that the available resources are well utilized the respondents gave the following responses 46.6% strongly agreed, followed by those who agreed at 38.8%, then those who strongly disagreed at 9.7%, then those who were neutral at 3.9%, then those who disagreed at 1%.

The responses on whether there is proper planning followed in utilizing the available resources in the organization the majority were at strongly agree and agree both at 46.6%, followed by those strongly disagreed at 3.9%, those who were neutral were at 1.9% and the least were at 1% of those who disagreed.

4.3.5 Leadership Styles and Financial Performance

Table 4.7: Leadership styles and financial performance

	Leadership Styles	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The organization ensures financial planning for estimated revenues and expenditures is done	50 (48.5%)	43 (41.8%)	5 (4.9%)	3 (2.9%)	2 (1.9%)
2	The leadership ensures budgeting is based on need-driven allocations	45 (43.6%)	46 (44.7%)	7 (6.8%)	3 (2.9%)	2 (1.9%)
3	The organization ensures that the available resources are well utilized	54 (52.4%)	39 (37.9%)	3 (2.9%)	1 (1%)	6 5.8%
4	Proper planning is followed in utilizing the available resources in the organization	50 (48.5%)	40 (38.8%)	4 (3.9)	1 (1%)	8 7.8%

On whether the organization ensures financial planning for estimated revenues and expenditures is done the responses were as follows: the majority strongly agreed at 48.5%, then followed by those who agreed at 41.8% followed by those

who were neutral at 4.9% then followed by those disagree at 2.9% and the least were at 1.9%.

The leadership ensures budgeting is based on need-driven allocations those who agreed were the majority were those who agreed at 44.7%, then followed by those who strongly agreed at 43.6%, then followed by those who were neutral 6.8% then followed by those who stated they disagree 2.9% and the least were at 1.9%.

When the respondents were asked if the organization ensures that the available resources are well utilized 52.4% strongly agreed, followed by 37.9% who agreed, then 5.8% who strongly disagreed and the least percentage was of those who disagreed at 1%.

The response whether proper planning was followed in utilizing the available resources in the organization48.5% strongly agreed, followed by 38.8% who agreed, then 7.8% who strongly disagreed, followed by those who were neutral at 3.8% while the least group who were those who disagreed at 1%.

4.3.6: Resource Allocation and financial performance

Table4.8 Resource Allocation and financial performance

	Resource Allocation	Strongly Agree	Agree	Neutral	Disagee	strongly Disagree
1	The organization ensures financial planning for estimated revenues and expenditures is done	48 (46.6%)	44 (42.7%)	4 (3.9%)	3 (2.9%)	4 (3.9%)
2	The leadership ensures budgeting is based on need-driven allocations	46 (44.6%)	47 (45.6%)	3 (2.9%)	1 (1%)	6 (5.8%)
3	The organization ensures that the available resources are well utilized	50 (48.5%)	40 (38.8%)	6 (5.8%)	1 (1%)	6 (5.8%)
4	Proper planning is followed in utilizing the available resources in the organization	48 (46.6%)	43 (41.7%)	5 (4.9%)	5 4.9%	2 1.9%

On whether the organization ensures financial planning for estimated revenues and expenditures is done. The responses were as follows: strongly agree were at 46.6%, followed by those who agreed at 42.7%, then those who were neutral and those who strongly disagree were at 3.9% then the least group was at 2.9%.

The responses on leadership ensures budgeting is based on need-driven allocations the majority agreed at 45.6%, followed by those who strongly agreed at 44.6%., followed by those strongly disagreed at 5.8%, those who were neutral at 2.9% and the least were those who disagreed at 1%.

Then the responses whether the organization ensures that the available resources are well utilized 48.5 % strongly agreed, then followed by those who agreed at 38.8%, then on those who strongly disagree and those who were neutral were both at 5.8%, while the least was at 1% of those who disagreed.

The responses on whether proper planning was followed in utilizing the available resources in the organization the responses were as follows: the majority strongly agreed at 46.6%, then followed by 41.7% who agreed, then those who were neutral and disagreed at 4.9% and the least group was at 1.9% of those who strongly disagreed.

4.3.7Financial Performance of Deposit Taking Microfinance Institutions

Chiefly, the study focused on establishing the financial performance of Deposit Taking Microfinance Institutions in Nairobi County. In this subsection, the researcher presents an in-depth analysis of the findings with regards to the various elements that affect lending rates.

Table 4.9: Financial Performance of Deposit Taking Microfinance Institutions

	Financial Performance of Deposit Taking Microfinance Institutions	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The company can meet its short-term obligations with its most liquid assets	44 (42.7%)	46 (44.7%)	4 (3.9%)	1 1(1%)	8 (7.8%)
2	The company can meet its long-term financial obligations	46 (44.7%)	44 (42.7%)	3 (2.9%)	3 (2.9%)	7 (6.8%)
3	The organization makes good profits from savings and credits	50 (48.5%)	43 (41.7%)	4 (3.9%)	2 (1.9%)	4 (3.9%)
4	The company has the long-term ability to pay all its financial obligations and survive challenges	48 (46.6%)	34 (33%)	4 (3.9%)	12 (11.7%)	5 (4.9%)

The responses whether the company can meet its short-term obligations with its most liquid assets the responses were as follows: 44.7% agreed, then followed by those who strongly agreed at 42.7%. Then those who strongly disagreed at 7.8% then followed by those who were neutral at 3.9% while the least was at 1% and those disagreed.

For the purpose of establishing the microfinance's long term ability to pay all its obligations and survive the challenges, over a half of the participants strongly agreed that the organization had the ability to pay all its obligations regardless of the challenges. Only 2.9% participants took neutral ground and 2.9% and 6.8% disagreed. And strongly disagreed, respectively.

On whether the organization makes good profits from savings and credits the responses were as follows: the majority 48.5% strongly agreed, then followed by 41.7% who agreed then 3.9% represented both who strongly disagreed and those who were neutral

In examining whether the company has the long-term ability to pay all its financial obligations and survive challenges it was strongly agreed that they are indicated by 46.6% and closely followed by an agreement of 33%. There were 11.7% of the participants who took disagreement while 4.9 % strongly disagreed and the least had 3.9% participants who were neutral.

4.4 Inferential Statistics Results

4.4.1Analysis of Variance (ANOVA)

The analysis was able to establish the variation that exists on the independent variables and obtain the output, as well as their effect on the dependent variable, the financial performance of microfinance institutions, as indicated in table 4.12.

Table 4.10: Analysis of variance (ANOVA)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.789	4	3.947	32.366	.000[b]
	Residual	11.952	98	.122		
	Total	27.742	102			

a. Dependent Variable: Financial Performance

Table 4.9 indicates that the F=32.366 as F critical is calculated at (df =4, 98). With sig (p-value) =000[b]which is less than 0.05 which is an indication that the overall regression is significant.

4.4.2Correlational Matrix

Table 4.11: Correlational Matrix

Correlations

		Technological innovation	Leadership Accountability	Leadership Styles	Resources Allocation	Financial Performance
Technological Innovation	Pearson Correlation	1	.			
	Sig. (2-tailed)					
	N	103				
Leadership Accountability	Pearson Correlation	.121	1		.	
	Sig. (2-tailed)	.223				
	N	103	103			
Leadership Styles	Pearson Correlation	.608**	.273**	1		
	Sig. (2-tailed)	.000	.005			
	N	103	103	103		
Resource Allocation	Pearson Correlation	.514**	.290**	.764**	1	
	Sig. (2-tailed)	.000	.003	.000		
	N	103	103	103	103	
Financial Performance	Pearson Correlation	.573**	.144	.703**	.672**	1
	Sig. (2-tailed)	.000	.146	.000	.000	
	N	103	103	103	103	103

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

The relationship as indicated in table 4.10. The study used correlation to reveal the association that exists between dependent variable financial performance and the four independent variables technological innovations, leadership accountability, leadership styles and resource allocation.

The correlation matrix indicates that there is a significant and positive relationship between financial performance and technological innovation as p (0.000) which is less than 0.05 and r (.573**), this indicates technological innovation and positive financial performance.

The finding further reveal that the correlation matrix further indicates that there is a positive relationship between financial performance and leadership accountability but with no statistical significance asis p (0.146) which is greater than 0.05 and r (.144) this reveals that leadership accountability affects positively financial performance deposit taking microfinance Institutions in Nairobi County. Similarly, the correlation matrix indicates that there is a significant and positive relationship between financial performance with and leadership styles as p (0.000) which less than 0.05 and r (.703**) this reveals that leadership styles affect positively financial performance. This indicates that leadership styles affect financial performance of deposit taking microfinance Institutions in Nairobi County.

Finally, the correlation matrix indicates that there is a significant and positive relationship between financial performance and resource allocation as p (0.000) is less than 0.05 and r (0. 672**) this indicates that resource allocation affects positively financial performance. This further reveals that resource allocation affects positively financial performance of deposit taking microfinance Institutions in Nairobi County.

4.4.3 Coefficient of Determination

Table 4.12: Coefficient of determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.754[a]	.569	.552	.34923

a. Predictors: (Constant), Technology innovation, Leadership Accountability, leadership Styles, Resources allocation

The finding on table 4.11 on coefficient of determination given R-value at .7540[a] which when converted into percentages translates to 75.4%, which reveals a strong relationship, between the dependent variable Financial performance of microfinance institutions and the four independent variables; the technological innovation, leadership accountability, leadership styles, and resource allocation. The R square which is the coefficient of determination to the dependent variable, which is affected by the four independent variables is calculated at .569. The finding therefore reveals that technological innovation, leadership accountability, leadership styles and resource allocation, represent 56.9% of the factors that affect financial performance of deposit taking microfinance Institutions in Nairobi County. These findings therefore indicate that there are other factors in deposit taking microfinance Institutions in Nairobi County which form 43.1% that affect them that were not captured in this study.

4.4.4 Multiple Regression Analysis

Table 4. 13: Multiple Regression Analysis

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	.660	.350		1.887	.062
Technological Innovation	.192	.080	.203	2.408	.018
Leadership Accountability	-.028	.028	-.069	-.991	.324
Leadership Styles	.350	.110	.357	3.184	.002
Resources Allocation	.344	.114	.315	3.023	.003

a. Dependent Variable: Financial Performance of Microfinance Institutions

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i$$

Where.

$\beta 0$ = Coefficient of the model

$\beta 1 - \beta 4$ = Beta Coefficient of dependent variables.

ϵ = Stochastic Error Term

Y= Financial performance

X_1 – Technological Innovation

X_2 – Leadership Accountability

X_3 – Leadership Styles

X_4 – Resource Allocation

$$Y= 0.660 + .192X_1 - 028X_2 + .350X_3 + .344X_4$$

The results from the multiple regression indicate that there is a positive with statistically significant effect between technological innovation and financial

performance of Microfinance institutions as (β=.192, while p = 0.018 This is supported by a beta coefficient of 0.192and a p-value of 0.018<0.05. This therefore reveals that an increase in technological innovation by 1 unit would lead to an increase in effect on the financial performance of Microfinance institutions by 0.192 units.

The results from the multiple regression further reveals that there is a negative with no statistically significant effect between leadership accountability and financial performance of Microfinance institutions as (β=-.028, whereas p = .324. This is supported by a beta coefficient of -.028and a p-value of 0.324>0.05. This consequently reveals that a decrease in leadership accountability by 1 unit would lead to a decrease in effect on the financial performance of Microfinance institutions by-.028units.

The results from the multiple regression indicate that there is a positive with statistically significant effect between leadership styles and financial performance of Microfinance institutions as (β=.350, while p = 0.002). This is supported by a beta coefficient of 0.350 and a p-value of 0.002<0.05. This therefore reveals that an increase in leadership style by 1 unit would lead to an increase in effect on the financial performance of Microfinance institutions by 0.350 units.

The results from the multiple regression indicate that there is a positive with statistically significant effect between resource allocation and financial performance of Microfinance institutions as (β=.344, while p = 0.002. This is supported by a beta coefficient of 0.350 and a p-value of 0.003<0.05. This therefore reveals that an increase in resource allocation by 1 unit would lead to an

increase in effect on the financial performance of Microfinance institutions by 0.344 units.

4.4.5 Effect Size

The effect size results for the financial performance of Microfinance institutions in relation to technological innovation, leadership accountability, leadership styles and resource allocation.

Table 4. 14: Effect Size

Variables	Effect Size (Beta Coefficient)	Percentage
Technological innovations	.192	19.2%
Leadership accountability	-.028	- 28%
Leadership styles	.350	35%
Resource allocation	.344	34.4%

The effect size of each of the variables used, which are as follows, technological innovation, leadership accountability, leadership styles and resource allocation whose effect size was determined by the beta coefficient (β). The result therefore revealed that leadership styles had the highest effect size followed by the resource allocations, then technological innovation while the least was leadership accountability.

4.5Discussion of Results

The aim of the study was to establish the factors affecting financial performance of Deposit Taking Microfinance Institutions in Nairobi County. The interpretation of the findings was as follows. First regarding the demographic

data, it was established that the majority of the participants were female at 68%. The implication of these was that the majority of the workers in DTMFIs are women hence an imbalance in terms of gender representation. In a similar vein, the study revealed a narrow margin of 7% between the management and administrative staff. This implied a normal distribution of administrative assistance under the management positions which might relate to healthy financial performance. However, there was a 10.7% of other individuals who might not be knowing their actual job description. Further, the study established that there was a 3.9% of participants with less than one-year experience working in DTMFIs. This means that the DTMFIs in Nairobi County have employees who have considerable experience in their work.

Second, the study revealed that the participants largely agreed or strongly agreed on several variables. For example, over 50% of the participants agreed that the DTMFIs were meeting their short and long-term financial obligations. In similar vein, about a half of the participants agreed that DTMFIs leadership related well with the employees by asking for their opinions on financial matters. Equally, the participants strongly agreed that the allocation of resources towards the integration of technology in dispensing services increased the level of financial performance. This implied that the DTMFIs in Nairobi County were generally performing well financially. However, this could mean that the consumer is on the receiving end in terms of much pressure to clear loans.

Finally, focusing on the regression analysis done, the study affirmed that there was outstanding association between technology innovation and financial performance of DTMFs. As there is a positive with statistically significant effect between technological innovation and financial performance of Microfinance

institutions as (β=.192, while p = 0.018). By driving the essential change to digital, banks have an enormous opportunity to engage with customers more meaningfully than ever before, embracing true customer centricity to enhance services, and using data to understand customer needs to predict behaviors (Bell, 2018).

While there was a negative with no statistically significant effect between leadership accountability and financial performance of Microfinance institutions as (β=-.028, whereas p = 0.324). According to Hannah Price (2020), When a leader lacks accountability it breeds resentment, it shatters trust and respect, it also sets a poor example to the employees.

There was a positive with statistically significant effect between leadership styles and financial performance of Microfinance institutions as (β=.350, while p = 0.002). According to Khajeh there is a considerable impact of the leadership styles on organizational performance. The leadership style influences the culture of the organization which, in turn, influences the organizational performance (Khajeh, 2018).

There is a positive with statistically significant effect between resource allocation and financial performance of Microfinance institutions as (β=.344, while p = 0.002).This finding affirmed what was observed by literature that when resources are properly allocated there is an increase in the effectiveness of available resource usage in the company to maximize their (Hałabuda, 2018).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter comprises the summary, discussion, conclusions, and recommendations, respectively. First, the summary of the important elements of the study includes the study objectives, methodology and the findings will be presented. Second, a discussion of the major findings of the study with regards to the specific objectives is done. Third, a discussion and the conclusions considering objectives are recorded in the chapter. The final part are the recommendations necessary for the future in theory, practice, and policy.

5.2 Summary of Findings per Objective

The purpose of this study was to find out the factors affecting financial performance of Deposit Taking Microfinance Institutions in Nairobi County, Kenya. The summary of the findings per objective are described in the following sections:

5.2.1 Technological Innovation on Financial Performance of Deposit Taking Microfinance Institutions

This study found that technological innovation is significant in enhancing the financial performance of deposit taking microfinance institutions. Therefore, this means that there is a robust productivity in financial performance when the institutions integrate technology. This kind of innovation will need more resources allocated to it. Based on literature reviewed, financial institutions need to build

around technology, fundamentally accelerating capabilities by streamlining every traditional core service - money management and movement, lending, investments, and savings.

5.2.2 Leadership Accountability on Financial Performance of Deposit Taking Microfinance Institutions

This study evidenced that there is no statistically significant relationship between accountability in leadership and financial performance. The study demonstrated that the majority of the participants strongly attested to the proper procedures of making critical decisions, involvement of employees in decisions of the institution, enhanced feedback as well as getting answers from the leaders.

5.2.3 Leadership Style on Financial Performance of Deposit Taking Microfinance Institutions

The study established there was a statistically significant relationship between the financial performance and the leadership style. This implied that gender was not a factor to increase the level of financial performance.

5.2.4 Resource Allocation on Financial Performance of Deposit Taking Microfinance Institutions

Regarding resource allocation, the study revealed that there was a strong association between allocating resources and improved financial performance of deposit taking microfinance institutions. This implied that institutions that performed better than others sufficiently allocated resources to the involved department.

5.3 Conclusions

Based on the objectives of the study, the researcher concluded the following. First, since the DTMFIs involved in the study were able to meet both the short and long

term financial obligations, this is an indicator the DTMFIs have the capacity to supplement the efforts being made by other institutions such as the banks in alleviating poverty. Second, the researcher concludes that the integration of technology in DTMFIs improves financial performance. This is an indicator of growth among the microfinance sector vis a vis other financial institution. Third, the researcher concludes that leadership accountability is essential in the running of DTMFIs. Fourth, the researcher concludes that gender has no effect on leadership regarding financial performance. Finally, the researcher concludes that resource allocation is a crucial factor to consider for the purposes of having an improved financial performance.

5.4 Recommendations

Based on the study's findings the research recommends the following: first, More Attention need to be given to leadership performance in DTMFI's to establish whether there is a relationship. Second, the researcher recommends to the policy makers especially the government and well-wishers to support the DTMFIs in subsidizing the loans. This will include lower interest rates, better accessibility to the loan facility without putting much pressure on the clients. With this, the researcher also recommends the DTMFIs to create awareness to their clients on how to wisely use loans. They can be trained on spending the loans on income generating activities rather than their own consumption.

5.5 Areas of Further Studies

The study recommends that there are other factors 43.1% were not captured in this study. Which can be used for further studies. There is also a need

for a similar study to be conducted factoring the views of the clients who were not part of the current study.

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APPENDICES

Appendix 1: Questionnaire

Dear Respondent,

Re: Request to Participate in Data Collection

My name is Paul Mwangi, a student at Africa International University (AIU) pursuing a master's degree program in Organizational Leadership. My study title is ***Factors Affecting Financial Performance of Deposit Taking Microfinance Institutions in Nairobi County.*** Your input is very important to this study and will be kept in strict confidentiality. In case of any questions or concerns, please contact me on this no.0724681609

Thank you in advance.

SECTION A: GENERAL INFORMATION

1. Which best describes you? Please Tick

(a) Management team ( )

(b).Administrative staff ( )

c) Business development ( )

2. How long have you worked for the organization you are in?

Less than 1 years ( )

1-5 years ( )

5-10 years ( )

Above 10 years ( )

SECTION B: Financial Performance of Deposit Taking Microfinance Institutions (DEPENDENT VARIABLE).

	Financial Performance of Deposit Taking Microfinance Institutions	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The company is able to meet its short-term obligations with its most liquid assets					
2	The company is able to meet its long-term financial obligations					
3	The organization makes good profits from savings and credits					
4	The company has the long-term ability to pay all its financial obligations and survive challenges					

Section C: Effects of Financial Performance of Deposit Taking MFIs (Independent Variables)

Tick in the space where possible and rate the following financial performance in a scale of 1 to 5 with 1 being strongly disagreed, 2 disagree, 3 undecided, 4 agree and 5 strongly agree.

	Technological Innovation	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The management is keen on integration and use of new technology in this organization					
2	When there is new technological inventions users undergo training.					
3	The leadership is keen on using new digital technologies to do business better, faster and cheaper					
4	The management has allocated resources and finance for technological innovations					
	Leadership Accountability					

1	A proper process is followed in making critical decisions for the organization					
2	All stakeholders are involved in the decisions that are made by the organization					
3	The reporting procedures are clear to all the employees					
4	The leadership is open to queries that may require answers in the spirit of promoting accountability					
	Leadership Styles	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	The leaders invites input from employees on most company decisions					
2	The leadership encourages and coaches employees to have a spirit of teamwork					
3	The microfinance promotes collaboration and a positive working environment					
4	Communication is encouraged in the organization					
	Resource Allocation					
1	The organization ensures financial planning for estimated revenues and expenditures is done					
2	The leadership ensures budgeting is based on need-driven allocations					
3	The organization ensures that the available resources are well utilized					
4	Proper planning is followed in utilizing the available resources in the organization					

DIRECTORY OF LICENCED MICROFINANCE BANKS

1. **Caritas Microfinance Bank Limited**

Physical Address: Cardinal Maurice Otunga Plaza, Ground Floor, Kaunda Street, Nairobi.

Date Licenced: 2nd June 2015

Branches: 1

2. **Century Microfinance Bank Limited**

Physical Address: K.K. Plaza, 1st Floor, New Pumwani Road - Gikomba, Nairobi

Date Licenced: 17th September 2012

Branches: 2

3. **Choice Microfinance Bank Limited**

Physical Address: Siron Place, Ongata Rongai, Magadi Road, Nairobi

Date Licenced: 13th May 2015

Branches: 1

4. **Daraja Microfinance Bank Limited**

Physical Address: Karandini Road, off Naivasha Road, Nairobi

Date Licenced: 12th January 2015

Branches: 1

Source: *(Central Bank of Kenya, 2017)*

DIRECTORY OF LICENCED MICROFINANCE BANKS

5. **Faulu Microfinance Bank Limited**

Physical Address: Faulu Kenya House, Ngong Lane, Off Ngong Road

Date Licenced: 21st May 2009

Branches: 39

6. **Kenya Women Microfinance Bank Limited**

Physical Address: Akira House, Kiambere Road, Upper Hill, Nairobi

Date Licenced: 31st March 2010

Branches: 31

7. **Rafiki Microfinance Bank Limited**

Physical Address: Rafiki House, Biashara Street, Nairobi

Date Licenced: 14th June 2011

Branches: 17

8. **Remu Microfinance Bank Limited**

Physical Address: Finance House, 14th Floor, Loita Street, Nairobi

Date Licenced: 31st December 2010

Branches: 3

Source: *(Central Bank of Kenya, 2017)*

DIRECTORY OF LICENCED MICROFINANCE BANKS

9. **SMEP Microfinance Bank Limited**

Physical Address: SMEP Building - Kirichwa Road, Off ArgwingsKodhek Rd, Nrb

Date Licenced: 14th December 2010

Branches: 7

10. **Sumac Microfinance Bank Limited**

Physical Address: Consolidated Bank House, 2nd Floor, Koinange Street, Nairobi

Date Licenced: 29th October 2012

Branches: 4

11. **U & I Microfinance Bank Limited**

Physical Address: Asili Complex, 1st Floor, River Road, Nairobi

Date Licenced: 8th April 2013

Branches: 2

12. **Uwezo Microfinance Bank Ltd**

Physical Address: Rehani House, 11th Floor, Koinange Street, Nairobi

Date Licenced: 8th November 2010

Branches: 2

Source: *(Central Bank of Kenya, 2017)*

DIRECTORY OF LICENCED MICROFINANCE BANKS

13. **Maisha Microfinance Bank Limited**

Physical Address: 2nd Floor, Chester House-Commercial Wing, Koinange Street, Nairobi

Date Licenced:21st May 2016

Branches: 1

Source: *(Central Bank of Kenya, 2017)*