Effect of Firm Characteristics on Performance of the Microfinance Sector in Nakuru, Kenya

Zachary Muhindi Kisengo[1], Henry Kombo[2]

[1]Egerton University, Faculty of Commerce, P.O. Box 13357-20100 Nakuru, Kenya

[2]Egerton University, Faculty of Commerce, P.O. Box 13357-20100 Nakuru, Kenya

Abstract: *Microfinances are set up to finance small enterprises but still they do meet the capital needs of the entrepreneurs. Therefore in spite of the importance of this sector, the provision and delivery of financial services by these firms has been below expectation. Literature suggests that firm characteristics determine performance of microfinances but it is not clear to what extent. The objective of study was to examine the effect of firm characteristics on the performance of the microfinance sector in Kenya. The study adopted correlational research design. A census was done on the 48 institutions registered with AMFI and operating in Nakuru. Primary data was collected using questionnaires. This was supplemented with secondary data. Data on firm characteristics and organizational performance was summarized using descriptive statistics. The relationship between firm characteristics and performance of MFIs was examined using correlation. The effect of firm characteristics on performance of microfinances was determined by regression analysis. Findings revealed that firm characteristics have a significant positive effect on performance of MFIs. Structure related characteristics had the greatest while capital related had the least effect on performance of microfinances. It is recommended that practitioners address and nurture firm characteristics to improve on performance of the sector.*

Keywords: Firm Characteristic, Entrepreneurship, Microfinance, Organizational Performance

1. Introduction

The growing global concern about persistent stagnation and decline in economic growth, accompanied by chronic unemployment, poverty and its resultant social problem have led to increased search for strategies which can stimulate economic growth. One strategy that has been growing in importance is entrepreneurship development. Both developed and developing countries have therefore focused on this strategy. In almost all economies, small businesses are critical for sustained growth. Kenya has thus created conditions for private sector growth but is still held back by an inadequate financial system (Lafourcade et al., 2005). Various analyses (Sauser, 2005; Harris & Gibson, 2006) have identified the challenges of the sector as lack of capital, inhibiting enabling environment and poor non-financial promotional programs. This means that it is difficult for the poor to elevate out of poverty due to lack of finance for their productive activities. About 60% of the population are poor and mostly out of the scope of formal banking services (Omino, 2005). The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable. Therefore, new, innovative, and pro-poor modes of financing low-income households based on sound operating principles have been developed by the microfinances.

According to Golan et al., (2003) firm's resources and objectives summarized as firm characteristics, influence performance of organizations. These include structure, market and capital-related variables. Structure-related variables include firm size, ownership and firm age. Market-related variables include industry type, environmental uncertainty and market environment. Capital-related variables entail liquidity and capital intensity.

Daft (1995) defined performance as the evaluation of achievement of the company target. Organizational performance is a focal phenomenon in business studies although it's complex and multidimensional. It can be characterized as the firm's ability to create acceptable outcomes and actions. In business life, it is a key term in the field of management, although it is not always explicitly stated. There is no universally accepted definition and has been interpreted in many ways, e.g. survival, profit; return on investment, sales growth, number of employees, happiness, reputation (Foley & Green 1989).

To meet unsatisfied demand for financial services, a number of microfinances have emerged over time in Africa. Some of them concentrate only on providing credit, others provide both deposit and credit facilities, and some are involved only in deposit collection. In Sub-Saharan Africa the sector includes a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients i.e. nongovernmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks (Lafourcade, et al., 2005). According to Omino (2005) microfinance is the provision of financial services to the low-income households and micro and small enterprises (MSEs) which provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. He further says widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs. This puts emphasis on the sound development of microfinances as critical ingredients for investment, employment and economic growth.

MFIs play a critical role in the economic development of many developing countries. They offer loans and/or technical assistance in business development to low-income community (Hartungi, 2007). They have a variety of

products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank may not offer to low-income clients in the banking system (Hoque & Chisty, 2011).

Since its birth in the 1970s, microfinance has endeavored to develop sustainable enterprises and its innovations have been replicated from country to country, each time with renewed enthusiasm and innovation leading to international best practices that have benefited and guided the practice of microfinance (Rhyne, 2001). However, the microfinance industry in most African countries remains largely underdeveloped. African MFIs have continuously faced many challenges, lack of funds being the major one. Despite the series of financial sector reforms that the African countries have undertaken since the 1980s, financial systems still exhibit substantial degrees of inefficiencies in their savings mobilization and allocation of resources into productive activities (Senbet & Otchere, 2006). Operating and financial costs are high, and on average, revenues remain lower than in other global regions (Manroth, 2001).

It is therefore important to find cost-effective ways of improving standards while at the same time minimizing restrictions and encouraging competence. Technological innovations, product refinements, and ongoing efforts to strengthen the capacity of African microfinances are needed to reduce costs, increase outreach, and boost overall profitability (Lafourcade, et al., 2005). Consequently, the sector should develop viable financial products relevant to the target markets.

In as much as microfinance is seen as a possible solution to the financial problems of small and micro businesses, the capital needs of the businesses have not been adequately met suggesting there are factors affecting performance of microfinances. Although a number of researches have been done on factors that contribute to performance of microfinances, little has been done to empirically determine the effect of firm characteristics on the performance of microfinances particularly in Kenya. Microfinances however, generally face a myriad of challenges ranging from product failure, default and high drop-out rates which have a direct bearing on the performance. There is compelling evidence to support the contention that a significant majority entrepreneurship failure occurs because microfinance services are inadequate to meet the needs of the very clients they are claiming to serve. Theoretically there is a link between firm characteristics and organizational performance. This study therefore sought to empirically examine the effect of firm characteristics on the performance of the microfinance sector by surveying microfinance sector in Nakuru.

The remainder of the paper is organized as follows. Section 2 will review previous literature on the relationships between firm characteristics and performance. Section 3 will provide an overview of the methodology while Section 4 will describe the results obtained in the research. The paper will be concluded in Section 5.

2. Literature Review

2.1 Firm Characteristics

Structure-related firm characteristics include size, age and ownership. The size reflects how large an enterprise is in infrastructure and employment terms. McMahon (2001) found that enterprise size significantly linked to better business performance. Larger enterprises were found to have higher level of success. Firm size has also been shown to be related to industry-sunk costs, concentration, vertical integration, and overall profitability (Dean et al., 1998).

The size of a firm is one of the major drivers of operational costs. McMahon (2001) points out large microfinances are more productive in terms of average cost per borrower and also have better write-off ratios. He also found that bigger microfinances are associated with smaller average costs making them more efficient. Similarly, Usman and Zahid (2011) found that larger firms have higher ROA, ROE and operational self-sufficiency. Small firms not only find it difficult to compete with larger firms in the market but they also face problems in obtaining finance, thereby hampering their ability to grow. For example, Heshmati in Usman and Zahid (2011) examined the relationship between size and sales growth small firms in Sweden and found that sales growth was higher in larger firms compared to the smaller ones.

According to Kneiding and Mas in Usman and Zahid (2011), age related factors can be observed on three different levels: an old microfinance may have more customers which may drive economies of scale; higher average loan sizes resulting from repeat customers may improve the cost structure and more knowledge about customers may streamline processes. Length time in operation may be associated with learning curve. Old players most probably have learned much from their experiences than have done by new comers. Kristiansen, Furuholt, & Wahid (2003) found that length time in operation was significantly linked to business success. These studies found that microfinance efficiency and profitability were strongly related to its age. The large pool of customers with an old microfinance and the resulting efficiency is therefore, likely to make it achieve a higher growth in outreach and higher AROA and financial self-sufficiency.

According to Smallbone et al., (1995), origin of enterprise in firms, where ownership and management were typically combined in one or more individuals and future goals for the business might be determined as much by personal lifestyle and family factors as by commercial considerations. Further, they concluded that one characteristic which distinguishes the best performing firms was their commitment to growth. Also, another characteristic that distinguish high growth firms is their propensity to acquire other businesses. Experience on the part of the owner/manager contributes to the survival of businesses. In their study of new firms, Duchesneau and Gartner (1990) found that lead entrepreneurs in successful firms were more likely to have been raised by entrepreneurial parents, to have had a broader business experience and more prior startup experience, and to believe that they had less control of their success in

business, than unsuccessful entrepreneurs. They also found that lead entrepreneurs in successful firms worked long hours, had a personal investment in the firm, and were good communicators. Moreover, successful microfinances were those initiated with ambitious goals, and lead entrepreneurs had a clear and broad business idea (Duchesneau & Gartner, 1990). Microfinances with more than one shareholder when set up were significantly more likely to survive (Westhead, 1995). Education and prior experience in business have been seen as critical success factors for microfinances (Wijewardena & Cooray, 1996).

Market-related variables include orientation and diversification. Market orientation places the customer at the center of all the activities of an organization. It aims at customer satisfaction which occurs when the products offered by the microfinance meet the expectations of the customers. This appears as an important factor leading to superior performance in microfinance. Market oriented MFI's are likely to achieve long-term profit by continuously providing superior value to customers through identifying their current and future needs, knowing the strengths and plans of competitors and responding to them in a coordinated manner. The potential of market oriented firms to achieve superior performance has been examined and found by a number of researchers in various industries (Deshpande et al., in Usman & Zahid, 2011). These coordinated, customer oriented and competitor oriented activities result in creating superior values for customers, enabling MFIs to attain competitive advantage that leads to superior organizational performance. Customer satisfaction enables the microfinances to retain not only the existing customers for longer period but also help them in attracting new customers through the positive word of mouth communication of the current satisfied customers (Kohli & Jaworski, 1993).

Firm diversification refers to expansion into new areas of business, or expansion of a commercial organization into new areas. Given that performance represents an investment in improving products and processes, Stimpert and Duhaime's (1997) results may argue for a positive relation between firm diversification and performance. Further a diversified firm is likely to be very similar in terms of organizational culture, technology, operating procedures, and competitive priorities. Therefore, the lessons learnt from a successful implementation of quality management in one operating unit can easily and efficiently be implemented in other operating units. More specifically, the approaches, procedures, techniques, and systems developed at one operating unit should be applicable and transferable at low cost to other operating units. Furthermore, as operating units gain experience with quality, the specific knowledge created in the process can be transferred at low cost to other units. Synergies among product quality improvements are more likely. A higher quality product in one area is more likely to reflect well on similar products in related areas.

Capital is material wealth in the form of money or property i.e. resources that can be used to generate economic wealth obtained either internally or externally. McMahon (2001) discovered that greater dependence upon external finance was associated with better business growth. Kristiansen et.al (2003) found that financial flexibility was significantly

correlated to business success. The firms that took advantage of family and third-party investment experienced higher level of success.

In most cases, MFIs tend to choose to create the right combination of debt and equity that might result in the lowest costs. Thus, the use of debt and equity proportions are the measurement tools for capital structure. Glen and Pinto (1998) describes that determining debt and equity is an important financial decisions faced by microfinances. Studies indicate that companies without borrowings (unlevered firms) show less fluctuation in their earnings, whereas, companies with borrowings (levered companies) show greater fluctuation in their earnings when there are changes in their financial performance (Glen & Pinto, 1998).

Glen and Pinto (1998) highlight two main reasons why to expect performance to be related to the capital intensity of the MFI. First, the high degree of automation in higher capital-intensive firms may already enable these firms to have a high degree of inherent process control. Second, an important component is the implementation of work practices such as employee training, information sharing, involvement, and empowerment.

2.2 Organizational Performance

Organizational performance can be characterized as the firm's ability to create acceptable outcomes and actions (Reed et al., 2000). Various studies on different countries on the performance of the MFIs confirm this (Meyer 2002, Robert Cull et al., 2007). For example, in Bangladesh a microfinance institution called Grameen Bank at the end of 2000 reported 2.4 million members, where 95 percent of them are women, with $225 million outstanding loan. In addition, Thailand also has reported impressive outreach through agricultural lending by the Bank for Agriculture and Agricultural Cooperative (Meyer, 2002). In general, a number of MFIs have registered impressive outreach in several developing economies including India, Cambodia etc.
A survey by Robert Cull et.al (2007) on the performance of leading MFIs in 49 countries found over half of surveyed MFIs are profitable after making adjustment of subsides. It also identified no evidence of tradeoff between being profitable and reaching the poor. It further examined micro financing program contribution to poverty reduction noted that the credit program had positive effect on income and saving of the clients.

Microfinance institutions, regardless of their social mission, are financial intermediaries. Therefore, it should be financially viable and sound to achieve its mission. Most of the MFIs were doing well in terms of operational and financial self-sufficiency. Half of the MFIs were not good in using retained earnings and donor money to become sustainable but most of them were brilliant in managing their assets to optimize profit. In general, during the year 2006 MFIs were doing well (www.trcasury.go.ke/).

According to Omino (2005), Most MFIs used the highest portion of the assets to their primary activity (making loans to micro entrepreneurs). A low cost of funds results from an

MFI gaining access to deposits and /or borrowings at a reasonable cost. In this respect all MFIs were successful in obtaining funds at an average interest rate below commercial banks' lending rate (7%). And cost of fund was high in the year 2005 in all institutions but below the lending rate of commercial banks. In the five years of operation, there was a steady growth in the proportion of debt to equity. In addition, full-fledged microfinance units have been established in the Ministry of Finance (the Treasury) and The Central Bank of Kenya to formulate policies and procedures to address the challenges facing microfinance institutions, especially in the rural areas, and also build a database to facilitate better regulation and monitoring of their operations (www.trcasury.go.ke/). This bill has seen some microfinance institutions transform to formal banking, for example Equity bank and Family Finance Bank while others have tried to make a move in vain.

2.3 Firm Characteristics and Organizational Performance

The determinants of organizational performance have long been of central interest to strategic management researchers (Rumelt et al., 1994). Performance is often defined simply in terms of output such as quantified objectives or profitability. This covers the achievement of expected levels as well as objective setting and review. The underlying thought is to investigate this relationship bearing in mind that if the firm characteristic is appropriate, then the expected levels of output will be achieved (success) and vice versa for failure. Success and failure are taken as the two ends of the performance continuum.

Various scholars have tried to set out a clear definition of performance (Chu-Hua et.al., 2001), but this debate continues to date within the academic literature, more so regarding some aspects of terminology issues, analytical levels, and the conceptual basis for assessment. According to Ginsbert and Venkatraman (1995), "There are three different levels of performance within organizations". They are distinguished as the financial performance, business performance and organization effectiveness, although the latter has been subsequently known as organizational performance (Terziovski & Samson, 2000). Performance is the key interest of every business manager or owner. The overall performance depends on strategic fit of firm characteristics and objectives. Organizational performance is measured by how relatively efficient a firm is in converting strategic assets, as defined by the resource-based view, into firm performance.

The search for an ideal or perfect structure is about as futile as trying to find the ideal canned improvement process to drop on the firm. It depends on the firm's context and focus (vision, values, purpose), goals and priorities, skill and experience levels, culture; teams' effectiveness and so on; each is unique to any organization.

3. Methodology

3.1 Research Design

Correlational design was used to examine the nature of relationship between firm characteristics and performance. The relationship between firm characteristics and performance is best handled using correlation analysis as it is a joint relationship of the variables but not a causal relationship, where it showed the nature of the relationship between the research variables and the direction of the relationship. The design made it possible to have a systematic collection and presentation of data thus determine the effect of firm characteristics on the performance of the microfinance sector in Kenya.

3.2 Target Population

The target population is the totality for observation and analysis. The target population should be explicitly and unequivocally defined. The population of this study entails all the microfinances operating within Nakuru municipality. There are 48 MFIs operating in Nakuru Municipality (Nakuru Municipal Council, 2012). The number was considered small not to warrant sampling. Furthermore, it was convenient and affordable to obtain data from all the subjects under investigation.

3.3 Data Collection

To achieve the objectives of the study, both primary and secondary data were used. Data regarding firm characteristics and organizational performance was accomplished through self-administered questionnaires. This was administered to the relevant manager who could provide the required information. The questionnaire was self-administered to enhance clarification of questions. Care was taken to afford the respondent independence and avoid researcher influence.

3.4 Reliability and Validity

Cronbach's alpha co-efficient was used to test for reliability of firm characteristics and performance instrument. The average Cronbach's alpha coefficient for the firm characteristics instrument was 0.805 and 0.777 for performance. A pretest was conducted in order to increase the validity of the questionnaires. Consequently a test-retest approach method was used to further test the validity of the instruments.

3.5 Data Analysis

The data gathered was analyzed using descriptive statistics which entailed means, percentages and standard deviation. To examine the relationship between firm characteristic and performance of MFI, Pearson product moment correlation coefficient was employed. To determine the effect of firm characteristics on performance of the MFIs, multiple regression analysis was used. The below multiple regression equation was developed:

$$y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + e$$

Where;
a = constant
x_1 = structure related firm characteristics
x_2 = market related firm characteristics
x_3 = capital related firm characteristics
b_1 - b_3 = regression coefficients
e = error term

4. Results and Discussion

4.1 Firm Characteristics

Information about firm characteristics was collected. Data was analyzed using percentages and then presented in tables. Data on structure related firm characteristics was analyzed in percentages and the results are presented in table 4.1 below.

Table 4.1: Structure related firm characteristics in percentages

No. of Branches	Less than 5 26.7	Btwn 5-10 6.7	Btwn 11-20 13.3	Btwn 21-30 26.7	Above 30 26.7
Networth of the firm '000 000'	Below 5 0.0	5 to 10 13.3	Btwn 10-15 0.0	Btwn 15-20 0.0	Over 20 86.7
Average Loan Size '000'	Below 20 0.0	20-40 26.7	40-60 33.3	60-80 20.0	Above 80 20.0
No of employees	Below 100 40.0	100-200 20.0	100-300 0.0	300-400 6.7	Above 400 33.3
Years MFI has been in operation	Below 10 yrs 46.7	10-20 Yrs 33.3	21-30 Yrs 13.3	31-40 Yrs 0.0	Above 41 Yrs 6.7
No of CEOs the firm has had since inception	Less than 2 37.8	Btwn 2-4 48.9	Btwn 5-7 13.3	Btwn 8-10 0.0	Above 10 0.0
The MFI's legal structure	NGOs 0.0	Cooperatives 0.0	Credit Unions 6.7	Non bank 40.0	Banks 53.3
CEOs tenure in office(yrs)	Below 2 13.3	Btwn 2-4 26.7	Btwn 4-6 20.0	Btwn 6-8 33.3	Above 8 6.7
% of manag't board comprising professionals	Below 20 0.0	Btwn 20-40 0.0	40-60 6.7	60-80 0.0	Above 80 93.3

Source-research results (2013)

According to table 4.1 over 50% of the MFIs have more than 50 branches of which 27% have over 30 branches. None of the MFIs has a net worth below 5 million. Most MFIs have a net worth of over 20 million which is a massive 86%. Table 4.1 illustrates that none of the MFIs awards loans below 20 thousand. Moreover there are 20% of the MFIs who award loans above 80 thousand. On average most MFIs give loans between 40-60 thousands (33%). Most of the MFI (40%) have below 100 employees. Further 33% of the MFIs, have over 400 employees.

Table 4.1 shows that only 7% of the MFIs have operated for over 40years with none having operated between 31 and 40 years. Most of the MFIs (47%) have operated for less than 10 years. Most of the MFIs (49%) have had between 3 and 6 CEOs since inception. Further there is no microfinance that has had more than 9 CEOs. Majority of the MFIs (33%) have the C.EO.s tenure running between 6-8years. The management board of the MFIs (93%) comprises of over 80% professionals. There is no MFI having below 40% professionals in the management board.

It is evident from table 4.1 that most MFIs (53%) also operate as banks. However none of the microfinances operates as a cooperative or an NGO. Majority of the microfinances are locally fully owned (93%) while a few have majority local shareholders (7%). However none has equal foreign and local ownership or majority foreign ownership.

Data on market related firm characteristics was analyzed using percentages. This is summarized in table 4.2.

Table 4.2: Market related firm characteristics in percentages

	Not at all	Little extent	Moderate extent	Great extent	V great extent
Reliance on single product for profitability	60.0	26.7	0.0	6.7	6.7
Firm's involvement in other business	20.0	40.0	20.0	6.7	13.3
Whether firm collaborate with other MFIs	13.3	46.7	13.3	13.3	13.3
Firm's intention to introduce new products	0.0	0.0	0.0	6.7	93.3
Firm's intention to expand to other regions	0.0	0.0	0.0	6.7	93.3

Source-research results (2013)

According to table 4.2, most of the MFIs have more than 8 different products of which they have minimal reliance on a single product for profitability. MFIs in a little extent do engage in other business (40%). In a little extent MFIs do collaborate amongst themselves. MFIs have very great intentions of introducing new products (93%) as much they would like to expand to other regions.

Majority of the loans are funded by 20-40% of the savings. However, only 7% of the loans are funded by over 60% of the savings. Savings are sometimes used as a requirement for borrowing. However this may rarely be used by other MFIs. An enormous 60% of the outstanding loans are accounted by below 20% of the forced savings. Moreover no outstanding loan is accounted for by over 60% of forced savings. Most MFIs offer a minimum loan of between 5 and 10 thousand representing 87%. There is no MFI that offers a minimum

loan below 5 thousand. In addition, 13% offer minimum loans of above 20 thousand.

Data on capital related firm characteristics was analyzed using percentages. This is summarized in table 4.3

Table 4.3: Capital related firm characteristics in percentages

	Never	*Rarely*	*Sometimes*	*Often*	*Very often*
Access of financial support from the government or banks	0.0	6.7	20.0	46.7	26.7
Dependence on other fixed assets for financial stability	0.0	33.3	40.0	20.0	6.7

Source-research results (2013)

It is evident from table 4.3 that MFIs often get access to either government or banks for financial support. However there are no MFIs that do not get access to financial support. It is evident that MFIs cannot operate without the support of external sources for financial support. In addition they may sometimes rely on other fixed assets for financial stability. In this case it becomes necessary for MFIs to run other forms of business so as to supplement their capital base.

4.2 Organizational Performance

To establish the level of organizational performance of the microfinances, respondents were asked to indicate to what level the aspects of performance had changed in their organization in the last three years. Averages for each item were calculated and then analyzed using percentages as presented in table 4.4

Table 4.4: Performance level of MFIs

	Very much decreased (%)	Moderately decreased (%)	Not changed (%)	Moderately increased (%)	Very much increased (%)
Changes in branch network	0.0	0.0	6.7	60.0	33.3
Changes in number of clients	6.7	0.0	0.0	40.0	53.3
Changes in loans recovered	0.0	6.7	13.3	73.3	6.7
Changes in loans volume	6.7	0.0	0.0	46.7	46.7
Changes in funding from donors	20.0	13.3	20.0	33.3	13.3
Changes in financial surplus	0.0	6.7	20.0	46.7	26.7
Changes in the firm's assets	0.0	6.7	6.7	66.7	20.0
Anticipation of funding short fall	77.8	2.2	0.0	6.7	13.3
Changes in the firm's liquidity crisis	86.7	0.0	0.0	13.3	0.0
Firm experienced positive cash flow	6.7	0.0	6.7	40.0	46.7
loan processing period	6.7	0.0	0.0	20.0	73.3

Source-research results (2013)

From table 4.4, loans volumes have moderately and very much increased for most MFIs giving an average of 46% in each case. Loans recovered for most of the MFIs have moderately increased (73%). Funding from donors seems inconsistent with no major dominant trend in change though it seems to have moderately increased. The client level has very much increased (53.3%) for most microfinances with few having moderately increased. Financial surplus have moderately increased (46.7%) for the MFIs with others having very much increased. Table 4.4 indicates that MFIs have very much increased in improving loan processing period. The microfinances have moderately increased in opening up new branches as well as acquiring assets. There is very much decrease in anticipation of funding shortfall and changes in liquidity crisis. These firms have also enjoyed improved positive cash flow with 47% of them having very much increased not forgetting the 40% that have moderately increased.

4.3 Firm Characteristic and Organizational Performance

The study examined the relationship between the aspects of firm characteristics and organizational performance. This was determined using Pearson product moment correlation. Each category was correlated with organizational performance. This is summarized in the correlation matrix presented in table 4.5.

Table 4.5: Correlation matrix of Firm Characteristic and Performance

		structure related	market related	capital related	organizational performance
structure related	Pearson Correlation	1	-.292	-.443[**]	.425[**]
	Sig. (2-tailed)		.052	.002	.004
	N	45	45	45	45
market related	Pearson Correlation	-.292	1	.530[**]	.328[*]
	Sig. (2-tailed)	.052		.000	.028
	N	45	45	45	45
capital related	Pearson Correlation	-.443[**]	.530[**]	1	.073
	Sig. (2-tailed)	.002	.000		.035
	N	45	45	45	45
organizational performance	Pearson Correlation	.425[**]	.328[*]	.073	1
	Sig. (2-tailed)	.004	.028	.035	
	N	45	45	45	45

*. Correlation is significant at the 0.05 level (2-tailed).
Research results (2013)

From table 4.5, the structure related firm characteristics have an r-value of .425 indicating a moderate relationship between structure related firm characteristic and organizational performance. Moreover this relationship is positive. The p value (.004) is below .05 thus we reject the null hypothesis and conclude that there is sufficient evidence, at 5% level of

significance, that there is moderate positive relationship between structure related firm characteristics and organizational performance of MFIs. On the basis of these statistical findings it was found that structure related firm characteristics had significant positive effect on organizational performance of MFIs. The results are consistent with studies conducted by Usman and Zahid (2011) who found that there was positive relationship between structure-related firm characteristics and performance.

The table further reveals that market-related firm characteristics with r-value of .328 indicating moderate relationship between market-related firm characteristics and organizational performance. Moreover this relationship is positive. The p value (.028) is below .05 thus we reject the null hypothesis and conclude that there is sufficient evidence, at 5% level of significance, that there is moderate positive relationship between market related firm characteristics and organizational performance of MFIs. On the basis of these statistical findings it was found that market related firm characteristics have significant positive effect on organizational performance of MFIs. The results support earlier findings by Usman and Zahid (2011), and Daft (1995) who found that there was positive relationship between market related firm characteristics and organizational performance.

Finally the table shows that capital-related firm characteristics have an r-value of .073 suggesting a weak relationship between capital-related firm characteristics and organizational performance. However this relationship is positive. The p value (.035) is below .05 thus we reject the null hypothesis and conclude that there is sufficient evidence, at 5% level of significance, that there is weak positive relationship between capital related firm characteristics and organizational performance of MFIs. On the basis of these statistical findings it was found that capital related firm characteristics have significant positive effect on organizational performance of MFIs. The findings are consistent with earlier works by McMahon (2001) Kristiansen et.al (2003) who found the existence of a positive relationship between capital related firm characteristics and organizational performance.

Hypothesis states that a joint relationship exists between the combined aspects of firm characteristics and performance of the microfinances. The p values (0.004, 0.028, and 0.035) for structure-related, market-related and capital-related characteristics respectively are below .05 thus we reject the null hypothesis and conclude that there is sufficient evidence, at 5% level of significance, that there is joint positive relationship between the three aspects of firm characteristics and organizational performance of the sector. These results support researches done earlier by Daft (1995), McMahon (2001) and Kristiansen et.al (2003) who viewed firm characteristics to comprise the basis of determinants of organizational performance.

4.4 Effect of Firm Characteristics on Organizational Performance

The study examined the effect of firm characteristics on organizational performance of microfinance institutions. Regression analysis was conducted between the independent variables and dependent variables in the study. The result of the regression analysis is presented in table 4.6 and table 4.7.

The model summary in table 4.6 reveal a moderate relationship between firm characteristics and organizational performance of microfinances($R = 0.541$). The coefficient of determination (R^2) is 0.293 indicates 29.3% variation in organizational performance is explained by firm characteristics.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.541[a]	0.293	0.241	0.3476
a. Predictors: (Constant), capital related, structure related, market related				

Table 4.7: Full Regression Model

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	3.72	0.698		5.326	0
	structure related	0.314	0.1	0.463	3.155	0.003
	market related	0.454	0.193	0.365	2.353	0.024
	capital related	0.166	0.084	0.326	1.97	0.056
a. Dependent Variable: organizational performance						

From the full regression model in table 4.10, we obtain the regression equation. Using the unstandardized beta coefficients, the following regression equation was developed.
$$Y = 3.72 + 0.31X_1 + 0.45X_2 + 0.17X_3 + \varepsilon$$

On the basis of the beta and significance values, firm characteristics namely; structure related ($\beta = 0.314$, $P = 0.003$), market related ($\beta = 0.454$, $P = 0.024$), capital related ($\beta = 0.166$, $P = 0.046$) were found to significantly influence performance of microfinances. This means that the three independent variables contributed significantly to the model and thus the alternative hypothesis that firm characteristics have significant influence on performance of the MFIs in Nakuru was accepted. From the analysis, it is noted that a unit change in structure related firm characteristics had greatest impact on performance of the MFIs while capital related firm characteristics had the least.

These results are consistent with researches done earlier by Usman and Zahid (2011), McMahon (2001) and Kristiansen et.al (2003) who viewed firm characteristics to comprise the basis of determinants of organizational performance. This view proposes that the three aspects of firm characteristics complementary in the sense that they jointly influence performance level of microfinances.

5. Conclusion

All the dimensions of firm characteristics have effect on a firm's performance. Structure-related firm characteristics have a moderate positive effect on organizational performance. Market-related firm characteristics have a moderate positive effect on organizational performance. Capital-related firm characteristics have a weak positive effect on organizational performance. The general finding of the study is that the three categories of firm characteristics have a joint positive effect on organizational performance. From the finding, among the three dimensions of firm characteristics structure based characteristics seem to have the highest effect on organizational performance while capital related firm characteristics have the least effect on organizational performance.

The size and age of microfinances have a positive relationship with their performance. Microfinances that practice market oriented and diversification strategies are seen to be better performers than those who practice contrary. Microfinances with high capital structure are excellent performers in the industry.The study therefore provides a solution to our problem which sought to determine the effect of firm characteristics on organizational performance. From the results we conclude that firm characteristics account for 29.3% variation in organizational performance of MFIs. This gives room for further studies to establish other casual relationships. The other remaining percentage could be explained by factors that are of out of scope of this study. Conclusively, the result of the study shows that firm characteristics have a significant effect on organizational performance of microfinances. Therefore there should be a continuous effort by microfinance stakeholders to enhance awareness and prosperity of firm characteristics. MFIs should bear in mind that firms collapse, as a result of poor management of resources i.e. firm characteristics. Further enlargement of the scope of study to a larger geographical area would also have a significant increment to the value of this research.

The researcher recommends that similar or related studies should be conducted in other sectors to compare how firm characteristics are key drivers of organizational performance. A study to evaluate firm characteristics as a direct impact of organizational performance should be undertaken in both public and private sectors. Therefore more research should be conducted to clearly present characteristics that determine the performance of organizations.

References

[1] Chu-Hua, K., Madu, C.N. & Lin, C. (2001). The relationship between supply chain quality management practices and organizational performance. *International Journal of Quality & Reliability Management,* Vol. 18 No.8. 864-72.

[2] Cull R., Demirguc-Kunt, A & Morduch, J. (2007). Financial Performance and Outreach: A Global Analysis of Leading Microbanks. *Economic Journal*, February 2007.

[3] Daft, R.L. (1995). *Organization Theory and Design*, 5th Edition. West Publishing Company, Minneapolis, St. Paul, MN.

[4] Dean, T.J., Robert, L.B. & Bamford, C.E. (1998). Differences in large and small firm responses to environmental context: strategic implications from a comparative analysis of business formations. *Strategic Management Journal* 19, 709–728.

[5] Duchesneau, D. & W. Gartner. (1990). A profile of new venture success and failure in an emerging industry. *Journal of Business Venturing*, 5 (5), 297-312.

[6] Foley, P., & Green, H. (1989). *Small business success.* London: Chapman.

[7] Ginsbert, A. & Venkatraman, N. (1995). Contingency perspectives on organizational strategy: a critical review of the empirical research. *Academy of Management Review*, Vol. 5, pp. 25-39.

[8] Glen, J., & Pinto, B. (1994). Debt or equity? How firms in developing countries choose. *IFC Discussion Paper*, 22, 1-16.

[9] Golan, E.; Krissoff, B.; Kuchler, F. F.; Nelson, K.; Price, G.; & Kelvin L. (2003). Traceability in the US food supply chain: dead end or superhighway? In *Choices* Vol. 2nd quarter.

[10] Harris, M. L., and Gibson, S. G. (2006). Determining the common problems of early growth of small businesses in Eastern North Carolina. *SAM Advanced Management Journal*, 71(2), 39-45.

[11] Hartungi, R. (2007). Understanding the success factors of microfinance institution in a developing. *International Journal of Social Economics*, 34(6), 388-401.

[12] Hoque, M. & Chisty, M. (2011). Commercialization and changes in capital structure in microfinance institutions. An innovation or wrong turn? *Journal of Managerial Finance*, 37(5), 414-425.

[13] Jaworski, B.J. & Kohli, A.K. (1993). Market orientation: antecedents and consequences. *Journal of Marketing* 57, 53–70.

[14] Kristiansen, S., Furuholt, B., & Wahid, F. (2003). Internet cafe entrepreneurs: pioneers in information dissemination in Indonesia. *The International Journal of Entrepreneurship and Innovation*, 4(4), 251-263.

[15] Lafourcade, I.; Mwangi, J. & Brown, C. (2005). *Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa*. Nairobi: UON.

[16] Manroth, A. (2001). How effective is Microfinance in CEEC and the NIS? A Discussion of Impact Analysis to date. *Unpublished M.Sc. Dissertation, London School of Economic and Political Sciences*, The European Institute, London.

[17] McMahon, R. G. P. (2001). Growth and performance of manufacturing SMEs: The influence of financial management characteristics. *International Small Business Journal*, 19(3), 10-28.

[18] Meyer, R. L. (2002). Track Record of Financial Institutions in Assisting the Poor in Asia. *ADB Institute Research Paper,* No 49, December 2002.

[19] Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. *Central Bank of Kenya. Essay on Regulation Supervision Series.*

[20] Reed R., Lemak D.J. & Mero N.P. (2000). Total quality management and sustainable competitive advantage. *Journal of Quality Management*, Vol. 5 No. 1, 5-26.

[21] Rhyne, E. (2001). Microfinance Institutions in Competitive Conditions. Working Draft Study. *Microenterprise Best practices (MBP)*, Development Alternatives, Inc., USAID project.

[22] Sauser, W.I. (2005). Starting Your Own Business? Prepare for Success. *SAM Management in Practice*, 3(1), 1-4.

[23] Senbet, L.W. & Otchere, I. (2006). Financial Sector Reforms in Africa, Perspectives on Issues and Policies. In Bourguignon, F. and Boris Pleskovic, Eds., *Annual World Bank Conference on Development Economics* – Growth and Integration. The World Bank, Washington D.C., 81-119.

[24] Smallbone, D., Leig, R., & North, D. (1995). The characteristics and strategies of high growth SMEs.*International Journal of Entrepreneurial Behaviour and Research, 1*(3), 44.

[25] Stimpert, J.L. & Duhaime, I.M., (1997). Seeing the big picture: the influence of industry, diversification and business strategy on performance. *Academy of Management Journal* 40 (3), 560– 583.

[26] Terziovski, M., and Samson, D. (2000). The effect of company size on the relationship between TQM strategy and organizational performance. *The TQM Magazine*, Vol. 12 No. 2, 144-9.

[27] Usman, G & Zahid, M. (2011). Factors Influencing Performance Of Microfinance Firms In Pakistan: Focus On Market Orientation International. *Journal of Academic Research* Vol. 3. No. 5.

[28] Westhead, P. (1995). Survival and employment growth contrasts between types of owner managed high technology firms. *Entrepreneurship Theory & Practice*, 20 (1), 5-28.

[29] Wijewardena, H. & S. Cooray (1996). Factors contributing to the growth of small manufacturing firms: perceptions on Japanese owner/managers. *Journal of Enterprising Culture*, 4 (4), 351-361.

Author Profile

Zachary Muhindi Kisengo is an MBA (Strategic Management) graduate from Egerton University and B.Ed Science (Mathematics- Statistics) from Egerton University. Kenya. He currently works with the Ministry of Devolution and Planning, State Department of Planning in Kenya. He previously worked with East African Breweries Ltd, Nairobi.

Henry Kombo is an MBA (Strategic Management) graduate from University of Nairobi and B.Com (Strategic Management) from University of Nairobi. He currently lectures at Egerton University. He previously lectured at Catholic university and Jomo Kenyatta University of Agriculture and Technology.