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FINANCE FACTORS INFLUENCING PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA, A SURVEY OF MICROFINANCE INSTITUTIONS IN KITALE TOWN

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Abstract: **In the present microfinance institutions in Kitale, Performance shift from different Microfinance institutions over time a situation that has led to managers' complaints on matters of customers' retention. The broad objective of the study was to examine the factors that influence performance of Microfinance institutions in Kitale town. The study specific objective was to examine the influence of quality of service on the performance of the Microfinance institutions. The study was based on the Loyalty Business Model which posits that, customer satisfaction is first based on a recent experience of the product or service, Equity Theory that holds that people develop and maintain relationship in which rewards are distributed in proportion to costs and Social Exchange Theory that posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives that people develop relationships, which yield the greatest profits. Descriptive survey design was applied with a target a population of 28,860 customers served by the 6 Microfinance institutions in Kitale, Kenya. Stratified sampling methods was applied to obtain sample size, 384 customers' from 6 Microfinance institutions in Kitale Town. Primary data was collected through the use of questionnaires. Data analysis was done as per the objectives of the study. The data was analyzed at two levels. In descriptive data analysis, tables and percentages was used and in quantitative data analysis, correlation, regression and ANOVA tools used. The SPSS computer program was used to aid in analysis. Multiple linear regression and correlation model was also used to analyze data by establishing the interrelationships between independent and dependent variable. It was confirmed that there are positive relationships between Quality of service, and performance of microfinance institutions. The findings of the study was to be useful to Microfinance institutions seeking to improve the customer loyalty. This research study contributed to the body of knowledge on the best practices of performance within Microfinance institution.**

Keywords: **Quality of Service, Financial Performance.**

1. INTRODUCTION

The importance of performance has been highlighted by many of researchers and academicians all over the world. Top performing Microfinance institutions believe that performance is the reason for their existence. The capacity to gain new performance and also to retain is central to the ability of a microfinance institution to generate profits. A small increase in performance can result in a substantial increase in profitability. Furthermore, the longer a loyal customer stays with a

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firm, the more profitable it is to that firm (Kim & Cha, 2002). Today's competitive environment seeks to maximize performance in order to sustain the company's protective edge against new entrants. Performance has a direct impact on long term achievements, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee, Coates & Nicholson, 2008). Supporting this argument, Lombard, (2009), notes that today the pressure on companies to perform is fuelled by the market where growth is slow. Under these circumstances, losing performance would impact

Measuring performance means measuring the strength of this relationship between buyer and seller, between the organization and its customer. It is challenging to measure the level of performance within the relationship, which is why companies so often succumb to simply defining performance as the number of purchases made or a continuing pattern of buy behavior. And asking the customer directly about whether or not they are 'loyal' does not provide a valid measure.

A study on nearly 97,000 account holders from microfinance institutions across the US, Canada, Mexico and Brazil and a follow-on research on more than 5,100 microfinance Institution customers found that Retail microfinance institutions face an extended period of sluggish growth and sharply reduced profitability. The study revealed that returning to growth and profitability was require microfinance institutions to earn performance and the superior economics it brings, while dramatically reducing costs (Toit & Johnson, 2011).New customers demand better quality services from microfinance institutions. It has boosted the competition among various commercial banks particularly those in private sector. This motivates them to deliver premium quality services to their customers in order to gain competitive advantage that is more satisfied and loyal customers.

In Europe a survey of over 6,000 retail microfinance customers revealed that 45% of respondents said that the 2007 to 2008 Microfinance crisis led to a negative impact on their ability to trust the microfinance industry. With diminishing trust came diminishing performance and the survey uncovered a marked and significant demise in the fidelity microfinance institutions enjoy among their customer base. The concept of a primary bank, with which customers hold most of their accounts and do the majority of their business, is blurring across Europe. Nearly a quarter of customers polled had at some point changed their microfinance Institution account, with 10% of the change happening within two years alone. An additional 11% said that they planned to change their main provider in the future. Other drivers for changing one's primary microfinance institutions were price, service and products (Saiz & Pilorge, 2014).

Across Asia-Pacific, customer loyalty at retail Microfinance institutions was also reported to be diminishing, despite the fact that the region fared well during the Microfinance crisis of 2007 to 2008. A survey that polled more than 4,700 existing customers across Asia-Pacific found that an increasing number of customers were using multiple institutions to meet their needs. While customers were not leaving their primary banks, they are choosing to go to a different microfinance Institution when a new need arose. Only 26% said they held four or more products at their primary bank, although over 50% indicated that they had a relationship with their main microfinance Institution for more than 10 years. Of those customers with multiple products at one bank, only 29% believed they are being rewarded for their loyalty (Saiz & Pilorge, 2015).

In current highly competitive corporate environment it has become increasingly important to not only become the market leader but also to maintain that top position (Zeithaml & Bitner 2016). Researchers all over the globe claim that offering quality services give a sustainable competitive advantage to any business. It enables them to fulfill not only the present needs of their customers satisfactorily but also to anticipate their future needs. This ability to anticipate the future needs of customers allows them to delight their customers through quality services on consistent basis. Subsequently it enhances customer satisfaction and customer loyalty level towards these organizations

Banks must consider various antecedents (tangibles, reliability, assurance and empathy) of service quality in order to have delighted customers (Sharp & Sharp, 1997).Sustaining performance of microfinance Institution is not a simple and straight forward task. Among other factors, this is influenced by the fact that most banks' products are developed in an easy to duplicate process. These results in microfinance institutions providing nearly identical services that can only be distinguished on the basis of price and quality. Customer loyalty is widely accepted as worth nurturing and six factors play key roles in influencing the loyalty and commitment of customers. They include, Core offering, Satisfaction, elasticity level, market place and demographics (Clerk, 2017).Expanding business environment has led to increased choice for consumers, lower prices, and lower margins, dramatically changing global infrastructures, market economies'

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expanding that is deregulation and privatization, telecommunications infrastructure and investment from analogue to digital (Muchira, 2015). Increased expectation has necessitated strategic changes in the way organizations run their business and relate to their customers, that is the overall internal and external environment winning the loyalty of your members should be your top priority. But making this happen isn't as easy or as clear cut as the intention itself.

As consumers live more and more of their lives online, the role of mobile in Microfinance services is shifting along with it. Just a few years ago, going mobile was a way to surprise and delight tech-savvy credit union members. Today, mobile engagement is fast becoming the only way to serve mobile-driven consumers and this directly affects the effectiveness of traditional methods that organizations have been using in winning and maintaining customers. Any customer retention mechanism (CRM) is potentially a critical tool that microfinance institution need in order to gain a strategic advantage and survival in today's ever-increasing microfinance competitive environment.

To achieve their objective, microfinance institutions need to implement a customer retention mechanism (CRM) solution that optimizes their interactions with every customer by providing greater insight into a customer's needs and transaction patterns. The solution must also facilitate the ability to act on insights in real time. Since traditional CRM is not sufficient to attain the level of insight and interactions required for success, microfinance institutions need to embrace new strategies of best practices called intelligent CRM that makes it possible to capitalize on inbound interactions, address the customer on a personal basis, and present real-time, personalized offers (Infor CRM, 2016).

A major challenge facing Microfinance institutions in Kenya, as noted by Auka (2012) is establishing and maintaining performance. Commercial Microfinance institutions have been experiencing high degree of customers' shift between banks. Service managers report a high frequency of a lack of retention and loyalty even among satisfied and delighted customers. This situation has been referred to as "the satisfaction trap'' (Auka, 2012).Many Microfinance institutions in Kenya know little about customers who shift, beyond information appearing on the daily closed account reports. While many Microfinance institutions use elaborate tracking to conduct in-depth analyses of their new accounts, many of those same Microfinance institutions do not track or analyze their closed accounts. Given account acquisition costs, it seems prudent for those Microfinance institutions to develop formal customer retention programs (Kasekende, 2018).

In Kenya, there are 44 commercial banks, 13 deposit taking microfinance banks, 30 non-regulated credit-only microfinance institutions, 199 registered savings and credit cooperatives (Sacco's), 5 mobile money operators, a large number of community-level services providers such as village banks, Microfinance services associations (FSAs) and savings groups and a growing number of start-ups looking to build a new generation of Microfinance services. The Microfinance Sector in Kenya is regulated by the Central Bank and each category of Financial institution is regulated by following Acts; banking Act, Microfinance act, The Trustee Act, The Societies Act, The Co-operative Societies Act, The Companies Act, The Building Societies Act, The Non-Governmental Organizations Co-ordination Act and The Kenya Post Office Savings Bank Act. In 2014, 7 years after mobile money was introduced, the National Payment System (NPS) regulations were passed into law, providing the first formal legal framework for mobile money and paving the way for increased interoperability across payments providers (Gubbins, 2015). Many of these trends have resulted in mergers, acquisitions and reorganizations in the microfinance sector. Furthermore, this trend has been characterized by a low customer base, declining profitability and stiff.

Financial Institutions operating in Kitale are; Banks to include Barclays, Kenya Commercial Bank, Cooperative Bank, Post Bank, Family Bank and Equity Bank. Deposit taking Micro- Finance Banks which includes; KWFT, NIC Bank, Sidian. Micro finance institutions are, Faulu, Trans Nzoia Times, SMEP and SACCOS include Trans Nzoia Women SACCO, NZOCE, among others. The Study will concentrate on the four Deposit taking Microfinance Institutions and two Microfinance institutions Micro- Finance institutions. Most of the studies and literature on Customer loyalty have been done in the western world in which the prevailing macro-economic conditions are distinct as compared to those in Kenya. This study therefore will examine factors that influence customers' loyalty to microfinance institutions in Kitale, Kenya. These factors include customers' perception, quality of service, and mobile banking. These factors were selected because they significant and common to all customers of microfinance institutions.

Micro- Finance institutions have been experiencing high degree of poor performance. Service managers report high frequency of lack of retention and loyalty even among satisfied and delighted customers. This situation has been referred to as "the satisfaction trap'' (Auka, 2012). In the present microfinance institutions in Kitale, performance shift from one

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microfinance to another. This implies that performance shift from different microfinance institutions over time a situation that has led to managers' complaints on matters of customers' retention. On the other hand customers have complaints that they receive raw deal from microfinance institutions in terms of quality, deception during promotions, inadequate information on mobile banking and unfulfilled expectations. Despite having several institutions operating in Kitale town, it is not known why performance shifts within microfinance institutions in Kitale town.

The microfinance industry in Kenya is facing new environmental demands arising from the enactment of the Microfinance Act 2006, which seeks to mainstream the operations of the microfinance institutions (MFIs) through regulation (Dondo, 2003). This requires development of new strategies and internal capabilities by MFIs to respond to the new environment. To effectively respond to regulation, (Rugman & Verbeke, 2008) demonstrated that organizations must develop capabilities in areas dominated or largely influenced by government regulation such as trade and industrial policy. The fact that MFIs have strived from various stages alongside the adoption of various organizational strategies due to their regulation indicates that they have not been easy to achieve optimum performance (Dondo, 2003). There is therefore the need to research in the same area on the finance factors influencing performance of microfinance institutions in Kenya a reason which contributes to the researcher's interest in conducting the study.

No empirical data exists on how customers' perception, quality of service, mobile banking and sales promotions influence customers' loyalty to microfinance institutions in Kitale town. This study Seeks to examine how and to what extent performance in the microfinance services sector is affected by factors within Kitale town. The objectives of the study was to examine the influence of quality of service on the performance of the microfinance institutions in Kitale town.

2. INFLUENCE OF QUALITY OF SERVICE ON PERFORMANCE

Kotler and Armstrong (2004) defined service as any activity or benefit provided by one party to another party which is basically intangible and does not lead to any ownership. During the consumer decision making process, not only do consumers make decisions regarding which service provider to choose but also decide whether to remain loyal to the current service provider. MFI performance is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing effort having the potential to cause switching behavior (Beryl & Brodeur, 2007). A basic premise of marketing is that through understanding customers and their purchasing habits, firms can design an effective product offering to help them achieve their objective which is to delight their High performance. Understanding customer behavior is intricately linked to understanding the needs and wants of customers. Today it is no longer sufficient for a business to simply satisfy a customer during a single transaction, rather, it must try to retain the customer for life, that is, achieve customer retention (Schiffman & Kanuk, 2004). According to Zeithamand Bitner, (1996), quality in microfinance sector is classified across six dimensions, these include; bank atmosphere, the relationship between the customer and the bank, rates and charges, the available and convenient services, Automated Teller machines, reliability/honesty, and enough and accessible tellers.

Service quality since the past three decades has been able to attract the attention of major practitioners, researchers and managers due to its robust influence on not only on business operations, profitability but also customers' satisfaction and loyalty. Institutions that adopt strategies to compete better are more likely to survive in the long run. Good performance is one way of keeping microfinance businesses competitive. Service quality is considered as key elements for top management in successful business organizations (Blose, Tankersley& Flynn, 2005).Today's competition rewards businesses that protect products and services through customer retention (Roberts, 2005). Customer retention through quality service, product, price and access to a bank's facilities among others, are critical to customer satisfaction. Research also shows that satisfied customers make repeat purchase (or stick to their service providers) and recommend to friends and families thereby increasing market share and profitability of the organization.

In the changing microfinance scenario of the 21st century, microfinance institutions have to build a strong identity to provide world-class services. The microfinance institutions have to be of high standard, committed to excellence in customers, shareholders and employees' satisfaction, and to play a leading role in the expanding and diversifying of microfinance sector (Balachandran, 2005). There has been a tremendous change in the way of microfinance between the year 2005 and 2009 and customers have also rightly demanded world class quality services from the microfinance institutions. With multiple choices available, customers are not willing to put up with anything less than the best. Microfinance institutions have recognized the need to meet customers' aspirations as different customers have different personalities, so it is an urgent drive for the microfinance institutions to establish the determinants of high performance in the microfinance sector in order to enhance profitability.

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Perceived qualities as well as customer expectations are the two most important constructs that positively and directly influences overall customer satisfaction (Yu et al., 2005). Customer satisfaction is directly proportional to service quality. So organizations should pay more attention on service quality. For this, the firms should welcome customer suggestions and should design programs which can measure service quality and customers satisfaction (Ojo, 2010). Empathy, reliability, responsiveness and tangibility which are the dimensions of service quality are positively related to customer loyalty and tangibility is one of the most important forecaster of customer loyalty (Al-Rousan, Ramzi& Mohamed, 2010). Research depicts that improvement made to service quality will automatically increase the loyalty of customers. The service quality dimensions that play a significant role in customer loyalty are reliability, empathy, and assurance (Kheng, Mohamad Ramayah Rahim & Mahasab,2010). Research also proved that tangibles and assurance has the most significant effect while empathy has the least significant effect on customer satisfaction (Ahmed, M, Mohamad , Sultan, & Iqbal, 2010).

Many previous studies indicated that there is a positive correlation between customer perceptions of service quality and his loyalty level, represented by encouraging others to deal with service provider and transfer positive news about him to others, and non-willing to switch to another competitor, which is reflected in consideration service provider as the first choice for shopping and increasing the deal intention with him in the coming period (Onditi, 2012), (2012) in his study on implication of service quality on microfinance customers, found out that service quality is a significant determinant of customer loyalty in the microfinance sector, whether or not service quality is moderated based on these findings, and on the discussion, the study concludes that quality of service is the single most significant determinant of customer loyalty among customers in the microfinance sector in Homa Bay County, Kenya.

3. METHOD

This study adopted descriptive survey design with a target population of 384 comprising of Customers of Micro- Finance institutions based in Kitale, town Kenya. There are 6 Micro –Finance institutions in Kitale 28,860 customers. They include Faulu Bank, Trans Nzoia Women SACCO, KWFT Micro – Finance Bank, NZOCE, SMEP Micro- Finance Bank, and Trans Nzoia Times SACCO. The dat collection instrument was questionnaire. Piloting was done to test the validity and relaiability of the data collection instrument. The data collected was sorted and then coded ready for analysis. multiple regression and ANOVA tools was used.

4. DISCUSSION

This section of the questionnaire assessed the respondents' view on some indicators of the quality of microfinance services offered by microfinance institutions in and around Kitale town. Below are the results obtained presented in Table 4.1

Table 4:1: Influence of Quality of Service on performance of microfinance institutions

Variable	SA	A	NS	D	SD	%
Banking hall at the microfinance institution provides a comfortable environment for me	57.0	35.0	3.0	4.0	1.0	100
Clients are able to access needed staff quickly	44.7	27.6	6.2	14.3	7.1	100
Charges for services at the institution compare favorably with those of other institutions	39.4	36.3	12.1	12.1	0	100
charges at the institution compare favorably with those of the microfinance sector as whole valid	19.9	47.5	23.3	8.7	.6	100
the institution is able to adapt new technology to create microfinance services faster than its rivals	41.9	19.6	9.3	27.6	1.6	100

The findings presented in Table 4.1 above are discussed below.

The respondents were asked if they strongly agreed, agreed, disagreed, strongly disagreed or were not sure of the statement "My microfinance institution's microfinance hall provides a comfortable environment for me to carry out their business". The results revealed that 57.0 percent of the respondents, 35.0 percent strongly agreed with the statement while 3.0 percent of the respondents neutral 4.0 disagreed and 1.0 percent strongly disagreed. This indicates that most of the microfinance institutions included in the survey had comfortable microfinance environment. This is in line with Zeitham

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and Bitner, (1996), who posits that quality in microfinance sector is classified across six dimensions, these include; bank atmosphere, the relationship between the customer and the bank, rates and charges, the available and convenient services, Automated Teller machines, reliability/honesty, and enough and accessible tellers.

The respondents were asked if they strongly agreed, agreed, disagreed, strongly disagreed or were not sure of the statement "I am able to get in touch with the staff members quickly and without delay" results indicated that 44.72 percent of the respondents strongly agreed, 27.6 percent agreed with the statements while 14.3 percent and 7.1percent disagree and disagreed respectively. This implies that in most microfinance institutions included in the study, the customers are able to access needed staff quickly without delay. This concurs with Dick and Basu, (2004) who argued that the findings in the field of brand loyalty did not generalize to service loyalty for the following reasons: service loyalty is dependent on the development of interpersonal relationships as opposed to loyalty with tangible products, in case of services, the influence of perceived risk is greater and intangible attributes such as confidence and reliability are the important factors to maintain the customer loyalty in the service context.

The respondents were asked if they strongly agreed, agreed, disagreed, strongly disagreed or were not sure of the statement "Charges for services in my microfinance institution compare favorably with similar types of microfinance institutions". Results revealed that 39.4 percent of the respondents strongly agreed with the statement, 36.3 percent agreed while 12 .1 percent were indifferent, 12.2 percent disagreed and none strongly disagreed. This therefore implies that in the eyes of its customers the microfinance institution costing on products and services compared favourably to other institutions. This corroborates with, Schiffman and Kanuk, (2004) who found that it is no longer sufficient for a business to just satisfy a customer during a single transaction, rather, the business must try to retain the customer for life. This suggests that providing favourable charges to customers should be provided for a lengthy time or frequently in order to retain the customer.

The respondents were asked if they strongly agreed, agreed, disagreed, strongly disagreed or were not sure of the statement "Charges for various products and services in my microfinance institution compare favorably with the rest of the microfinance sector as a whole". Results revealed that 19.47 percent strongly agreed, 47.5 percent of the respondents with the statement while 9.3 percent were negative on the likert scale. This therefore implies that most of the microfinance institutions included in the study have favorable prices for their products. According to Sherriff and Leslie, (2008) lowering product prices or giving discount to customers helps maintaining customer loyalty and keeping microfinance businesses competitive.

The respondents were further asked if they strongly agreed, agreed, disagreed, strongly disagreed or were not sure of the statement "My microfinance institution is able to adapt new technology to create microfinance service products faster than its rivals". Results revealed that 41.9 percent of the respondents strongly agreed, 19.6 percent agreed with the statement. A significant number of the microfinance institutions represented by 27.64 percent of the respondents disagreed. This imply that majority of the microfinance institutions included in the study used new technology to create services faster than its rivals and that microfinance institutions adopt new technologies fast. This is corroborated by a study by Shirshendu and Sanjit, (2011) on Generic Technology-Based Service Quality Dimensions in Microfinance: Impact on Customer Satisfaction and Loyalty which found that technology convenience and customer satisfaction have significant and positive impact on customer loyalty.

4.1 Statistical Relationship between performance of microfinance institutions and Quality of Services:

The study sought to find out the relationship between performance of microfinance institutions and quality of services and the following results were obtained from bivariate correlation. The results are presented in table 4:2

Table 4.2: Statistical Relationship between performance of microfinance institutions and Quality of Services

		Customer Loyalty	Sales Promotion
Customer Loyalty	Pearson Correlation	1	.383*
	Sig. (2-tailed)		.030
	N	280	280
Quality of Services	Pearson Correlation	.383*	1
	Sig. (2-tailed)	.030	
	N	280	280

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

Table 4.2 shows that there was a significant correlation between performance of microfinance institutions and quality of services at P=0.01. This therefore implies that there is a significant relationship between performance of microfinance institutions and Quality of services

To determine the strength of correlation, a regression analysis was done and it yielded the following results

Table 4.3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.226[a]	.051	1	0.19

a. Predictors: (Constant), Quality of microfinance Services

b. Dependent Variable: performance of microfinance institutions

Table 4.3 shows the R and R^2 value representing the simple correlation. The R value is 0.226 which indicates a strong correlation. The R^2 value indicates how much of the dependent variable, performance of microfinance institutions, can be explained by the independent variable, Quality of microfinance services In this case, 5.1 percent can be explained. This therefore implies that the relationship between quality of services and performance of microfinance institutions is weak.

These results are further collaborated by ANOVA analysis which yielded the results shown in table 4:3.

Table 4.4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	562.95	220.01	2.165	60.7	.005[b]
1	Residual	123.76	60.99	2.029		
	Total	655.71	280			

a. Dependent Variable: performance of microfinance institutions

b. Predictors: (Constant), Quality of microfinance Services

ANOVA results in Table 4.4 indicate that the regression model predict the outcome variable. This indicates statistical significance of the regression model that was applied. An F statistic of 60.7 indicated that the model was significant. This was supported by a probability value of 0.0005 which is equal the conventional probability of 0.005, which is less than 0.05, and indicates that; overall, the model applied can statistically significantly predict the outcome variable.

Coefficient Determination:

The study determined the regression coefficient between Quality of Service

Table 4.5: Coefficient Determination of Quality of service and Customer Loyalty

		Unstandardized Coefficients
		B
Performance of Microfinance Institutions	Constant	2.517
Quality Service		**.236**

Coefficient Determination of Quality of service and performance of microfinance institutions in Table 4:4 provide the information needed to predicate performance of microfinance institutions from Quality of service. Both the constant and Quality of service contribute significantly to the model. The regression equation is presented as follows; performance of microfinance institutions = 2.517+0.236 (Quality of service)

5. CONCLUSION AND RECOMMENDATIONS

The research investigated factors that influence the performance of microfinance institutions in Kitale, Kenya. It was confirmed that there are positive relationships between Quality of service, and performance of microfinance institutions. Overall observations emanating from the statistical results, suggest that all the four aspects correlate positively with performance of microfinance institutions. The hypothesis of the study was rejected leading to the conclusion that factor that influence performance of microfinance institutions is Quality of service.

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Based on the findings of the study, the following was the recommendation; Managers need to develop systematic assessment programs to monitor service quality, perceived value and customer satisfaction overtime. Microfinance staff should be kept informed of results and be encouraged to take part in formulating an effective loyalty strategy. Employees of microfinance institutions should be encouraged to have a good and quality relationship with customers. Customers should be made to feel that employees understand them and their needs in microfinance institutions. Relationships with customers should be caring and ongoing. This ensures that touch and personal relationship are established when the first contact with the customer is made.

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