INTERNAL ENVIRONMENT AND FINANCIAL PERFORMANCE OF DEPOSIT
TAKING MICROFINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA

BY

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D53/CTY/PT/32490/2015

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL
FULFILMENT FOR THE AWARD OF DEGREE IN MASTER OF BUSINESS
ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY

MAY 2019
DECLARATION

This research project is my original work and has not been submitted for examination in any other institution. No part of this work may be reproduced without my permission or that of Kenyatta University.

Sign…………………………………… Date……………………………………

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This research project has been carried out with my guidance as the university supervisor.

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DEDICATION

I dedicate this work to my family members for their support in the process of coming up with this research document.
ACKNOWLEDGEMENT

I acknowledge the Lord Almighty for His guidance and blessings. I sincerely thank my supervisor Dr. Fredrick W. S. Ndede for reading the drafts and guidance towards making this research work a success. Your support, words of encouragement and motivation are highly appreciated.
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## OPERATIONAL DEFINITION OF TERMS

**Deposit Taking Microfinance institutions**
Those that provide financial services including taking deposits from the low-income households and micro and small enterprises (MSEs).

**Financial Performance**
This entails the attainment of the financial goals of an organization, measured in terms of return on assets (ROA) and return on equity (ROE).

**Internal Environment**
They include organization culture, organization structure, resource capability and information system adoption.

**Organization Culture**
Organizational culture entails a system of shared values, assumptions, and beliefs, which dictate how people behave in the organization.

**Organization Structure**
Organizational structure describes the arrangement of responsibilities or the architecture of business capability, leadership ability, functional relationships that are established as the basis for organizing.

**Return on Asset**
ROA is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.

**Return on Equity**
ROE is how well a company uses investments to generate earnings growth. It’s a measure the profitability of a business in relation to the shareholders’ equity.
ABBREVIATIONS AND ACRONYMS

CBD
Central Business District

CBK
Central Bank of Kenya

DTMI
Deposit Taking Microfinance Institution

ICT
Information Communication Technology

MFB
Microfinance Bank

MFI
Microfinance Institution

NGO
Non-Governmental Organisations

SPSS
Statistical Package for Social Sciences
ABSTRACT

The internal regulation environment remains a precondition for deposit mobilization in many countries thus more DTMIIs seek to transform into regulated entities to access cheap and local currency deposits. Reports indicate that only five percent of the total DTMIIs have grown to a full banking institution for the past ten years. This is a worrying trend as one would expect that the DTMIIs should grow to the next level given the large market base and many sources of funds they are exposed to in the market. The failure to compete and to grow from one level of operation to another has been linked to organizations internal environment. It is for this reason that the study examined the influence of internal environment on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya. The specific objective of the study includes to examine the effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya. Secondly to find out the influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya. Third, to establish the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya and lastly to find out the influence of information system adoption on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya. The study was premised on a descriptive research design. The study targeted management of the licensed deposit taking microfinance institutions. The data collection instruments were semi-structured questionnaires and the data collected was analyzed using SPSS. The research utilized both descriptive and inferential analysis. The descriptive results were presented using percentages and frequency tables. The research further utilized multiple regression model to estimate the effect of the independent variable on the dependent variable. For the qualitative data the study adopted content analysis. From the study I concluded that the type of organization structure, organization culture, information system adoption and resource capability affects the flow of information and work coordination in an organization and this has direct effect on financial performance of deposit taking microfinance institutions. One of the major areas which should be considered for further research is the relationship between employee motivation and financial performance of microfinance taking deposits. This area lacks enough literature and kept on coming throughout research process.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Internal environment and control are a procedure, affected by an element’s governing body, administration and other staff, intended to give sensible confirmation in regards to the accomplishment of a company's objectives in the adequacy and proficiency of activities, unwavering quality of money related and administration reporting, consistence with relevant laws, controls and secure the firm's reputation (Ngigi & Njeru, 2014). There are many controls that a DTMI can institute to protect its resources against loss to improve performance. A collection of internal controls put in place by the DTMI is what forms internal control system (ICS). Internal control is a topic that cuts across some disciplines including financial accounting and auditing. It can be traced back to ancient times. In Hellenistic Egypt, there was dual administration where one side was involved in the collation of taxes while the other supervising them (Ngigi & Njeru, 2014).

Performance in an organization reflects the result of the effects of implementation of various Strategies adopted by a firm. It is difficult to fairly assess the performance of deposit-taking Microfinance institutions. Different organizations use varying measures of performance. These measures may be quantitative or qualitative. Performance variables are both financial and non-financial (Flynn & Flynn, 2004). The success of any organization is manifested in attaining a competitive position or series of competitive positions that lead to superior and sustainable performance (Ngigi & Njeru, 2014). More so organizations are facing major challenges in maintaining commercial success. This is as a result of changes in the marketplace and emerging business practices. An organization may easily fall back due to the failure of not keeping up with the environmental changes (Albright, 2014).
The global business environment today has presented opportunities and challenges for businesses (Ssewanyana, 2009). The operationalization of an organization's internal environment remains varied; however, there has been a consensus among scholars on the issue of considering the internal environment as a major determinant of a firm's performance. Internal environmental forces provide firms with the strength and weaknesses of doing business (Ahmadi, Salamzadeh, Daraei & Akbari, 2012). For a firm to meet business objectives and to meet customer expectations, firms are required to identify key business activities and processes that they must excel in. The identified business activities and processes must be monitored to ensure satisfactory deliverance of results.

In the recent past, MFIs have seen considerable transformation towards commercialization and revolution of the contributors of microfinance into formal financial institutions. This is driven by the motivation of profitability and sustainability of microfinance institutions. To a greater extent, MFIs have become independent which has led to the development of microfinance banking institutions (Ndung’u, Machuki & Murerwaal., 2014); this allows MFIs to expand their operations and increase the level of outreach.

In Kenya, there has been renewed interest in Microfinance by both policymakers and practitioners based on the valued contribution to efforts aimed at improving the livelihoods of the rural population and small investor groups. Microfinance industry in Kenya advances small scale investments that create adequate incomes from generally unrealized market exercises while yielding a return on the venture. Office expenses might be especially vast in this industry in light of the fact that DTMIs hold private data on their credit customers. Furthermore, DTMIs access to grant funding and other security net assurances may build motivating forces for hazard moving or remiss hazard management possibly expanding the office expenses of outside obligation.
The establishment of the Microfinance Act on second May 2008 implied that some current microfinance organizations registered for licenses to enable them to take deposits from individuals and the overall population. The principle goal of the Microfinance Act is to manage the establishment, business, and activities of DTMIs in Kenya through licensing and supervision. In a report by CBK (2017), there are at present thirteen (13) Deposit-taking MFIs working in Kenya. In Kenya, there has been a colossal increment in non-performing loans in DTMIs in the course of the most recent six years; this has prompted a reduction in liquidity, this contrarily influences the venture decisions of the firm prompting the poor financial performance of the firm (AMFI, 2013).

To accomplish financial performance, DTMIs ought to be well furnished to manage the changing fiscal arrangement that shapes the general liquidity patterns and the financial related organizations' value-based necessities and reimbursement of short-term borrowing. There are some different dangers faced by financial organizations that adversely influence financial performance for instance; credit risk, operational hazard and financing cost risk, which may culminate as liquidity chance. Also, liquidity proportions sometimes asked for by DTMIs when they are assessing a loan application. In the event that you apply for a loan, the bank may expect you to keep up a specific least liquidity proportion, as a major aspect of the loan agreement, (Waweru and Kalani, 2009).

1.1.1 Internal Environment Factors

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager. Kuratko, Hornsby & Covin (2014) define internal business environment as the conditions, entities, events, and factors within an organization that influences its activities and choices, particularly the behavior of the employees. Factors that are frequently considered part of
the internal environment include the organization's mission statement, leadership styles, and its organizational culture.

Cirikovic (2011) explains the internal environment as factors that have an internal impact on the organization and which the organization can influence them. This group will include all the factors that are contained within an entity internally, such that any changes in the factors will lead to changes in the entire organization. The organizational internal environment consists of the trading status of the business, firm's finances, physical resources, operational and control, staff and management skillset, stakeholders' interests, policies, and procedures. The internal environment of an organization mainly comprises firm related factors that have an impact on the firm's capacity to set objectives, formulate and implement a viable plan, which eventually contributes to its performance (Amaoko-Gyampah., 2003). Firms need to develop a conducive environment for creativity, with a strong external focus on multiple stakeholders (Cagliano, 2011).

Magnier-Watanabe and Senoo (2008) indicate that firm's characteristics such as; culture, structure and leadership style are attributes originating from both the management style adopted by the organization which is essential for the positive financial outlook of an organization. The organizational factors include but not limited to resource capability, information technology systems, organization structure, and organization culture and leadership competency. Today, any well-running organization strives to acquire these characteristics through staff training, capital injection, recruitment as well as staff motivation (Mungai, 2014). McKinsey’s argued that the organization internal environment can be conceptualized in the lines of strategy, the structure, skills, the internal systems, the organization culture (shared values) and the leadership style that play a critical role in shaping the organization performance (Gyepi-Garbrah & Binfor, 2013). In
the current study, internal environment will be conceptualized regarding organization structure, organization culture, resource capability and information systems adoption.

1.1.2 Financial Performance of DTMIs

A survey conducted by CGAP in 2007 indicated that the majority of Sub-Saharan Africa countries are increasingly focusing their attention on regulating microfinance, CGAP. The study showed that microfinance is becoming more integrated into formal financial systems and in some countries; DTMIs are placed under the same law with commercial banks or under prudential regulation and supervision by the same authority.

In contrast to business banks, DTMIs utilize procedures, for example, solidarity group loaning, dynamic loan structure, prompt reimbursement arrangements, customary reimbursement timetables, and guarantee substitutes to limit related financial risks and in this way reach the poor people. For example, Consultative Group to Assist the Poor (CGAP) revealed that regular banks in Sub-Saharan Africa serve just a single quarter of the aggregate borrowers. The remaining three-quarter acquires from non-bank financial go-betweens, nongovernmental associations, credit associations/financial cooperatives and others. Banks held 53 percent of the whole loan portfolio and 60 percent of the aggregate deposits. This shows banks are associated with huge loans per customer while MFIs manage lower per capita loans proposing MFIs' more profound effort to poor people. CGAP (2012) authenticates that the worldwide loan responsibility for money related incorporation achieved USD 29 billion.

Additionally, the estimate demonstrated Sub-Saharan Africa's stand as Eastern Europe, Central and South Asia's best destination for universal financial incorporation funds. However, the impact of such subsidizing on the performance of DTMIs has touched off mounting concerns (Kago,
It is on DTMIs capacity to stretch out credit administrations to the poor without givers and governments' money related help in the long haul, and remaining monetarily reasonable. There is likewise worry on the capacity of governments and givers to keep subsidizing to take care of the developing demand for finance. Contending opinions on this have ruled approach and scholarly discussions.

The nexus between DTMIs' loan administration effort to poor people and their institutional financial related reasonability welcomes escalated insightful debates on the methodologies that DTMIs, contributors, and governments are encouraged to pursue to advance financial incorporation (Millson, 2013). The debate is prevalently between the advocates of the self-supportability approach (additionally called the financial systems approach or the institutionalism approach) and the neediness loaning approach (likewise called the welfares approach). The wellspring of the contention is whether DTMIs could keep focusing on poor people while remaining fiscally confident (the poor with economic empowerment distinct them from great poor).

The poverty loaning approach favors miniaturized scale loaning to the poor at a lower cost (bring down financing costs) through giver and government endowments to diminish poverty (Millson, 2013; Schreiner, 2002). In contrast, supporters of the self-maintainability approach fight that unless DTMIs are feasible through full-cost recuperation, the worldwide microfinance request will remain neglected. Givers and governments are in need of help to achieve the worldwide microfinance needs, and their endowments will be brief. At the end of the day, while governments and benefactors give generally minimal effort budgetary access, their capital assets are deficient to react to the overwhelmingly colossal advance interest.
The self-maintainability defenders additionally propose DTMIs look for elective wellsprings of assets, for example, assembling assets from reserve funds, utilizing values, and making revenue driven ventures. Buluma, Kung’u & Mungai (2017) argue that the interest spread is wide between deposit and lending interest rates, which provides disincentives for savings and lending as it depresses the returns for savers and pushes up the lending interest rates. This implies that banking in African countries is very expensive due to this high-interest spreads and overhead costs.

Political and economic volatility coupled with high risks because of weak and underdeveloped contractual frameworks drives up the cost and reduces the time horizons for both investors and borrowers. The value of non-performing loans or assets in DTMIs is associated with their failures in both developed and developing countries. The crisis which has influenced an extensive number of sub-Saharan African nations was likewise accompanied by the quick collection of non-performing resources. The global financial distress at first hit the advanced economies especially the United States and Europe and also the emerging markets and low-income countries but in different ways. Also, emerging markets with well-developed financial systems were mostly influenced by the cross-border financial linkages through capital flows, stock market investors, and exchange rates. According to Paz et al., (2017) the financially less developed countries were affected by the growth and trade effects which were dominated by intervals. Aron et al., (2017) underscores that it is important to control the non-performing assets for the performance of the individual MFI and the financial environment of the economy.

The productive capacity of an economy is maximized when the financial regulator ensures that there exists a sound microfinance system that maximizes the social welfare of the people. DTMIs open themselves to the dangers of default from borrowers because of the nature of their business. These risks can be cushioned through careful credit risk assessment and creation of adequate
provisions for debts being doubted. Waweru and Kalani (2009), found out that most financial crises encountered by DTMIs are often associated with the massive accumulation of non-performing assets which accounts for a sizeable share of total assets of insolvent financial institutions. Belydah & Herick (2017) concluded that the piling of non-performing resources is inferable to economic downturns and macroeconomic volatility, high-interest rates, insider lending and moral hazard.

1.1.3 DTMIs in Kenya

The desire to serve clients better is the motivation for most MFIs transforming from a non-regulated microfinance institution to DTMIs, which are regulated. This was envisioned as an easier way to mobilize funds, greater outreach and a more efficient way of service delivery. Amongst the benefits of such transformation is cheaper access to funds through deposits, in the long run, increased governance and greater competitive position. This will perhaps contribute towards achieving greater financial performance leading to self-sustainability of the DTMI. Despite the fact that the 2006 Microfinance Act in Kenya permits deposits taking MFIs, such establishments showed up in Kenya in 2009 when two of the spearheading MFIs-Faulu Kenya and Kenya Women Finance Trust changed to deposit takers. Change of microcredit programs into a bank serving just low-pay customers is an old story that occurred in 1999 when K-Rep turned into the first commercial bank in Kenya to serve just low-salary customers, and the primary NGO in Africa to change into a regulated financial establishment, (Central Bank of Kenya, 2013). Financial inclusion stays to be a test for Kenya. There are 13 deposits taking microfinance institutions up to date that has plunged into the deposit-taking business.
CBK (2014) highlights that, regarding their financial performance, without commercial banks, total assets of the DTMI sector stood at KES 57.4bn as of December 2013 posting 26.7% annual growth. The market shares of Credit only MFIs and MFBs remained stable with the two segments accounting for 28% and 72% respectively of the total assets for the sector without banks over the past three years. For all segments, a slower paced growth was achieved in 2013 compared to the previous year. The whole sector and the sector without banks (since 2012) are mostly funded by deposits, representing 63.9% and 50.9% of total liabilities and equity respectively. Borrowings are the second main source of funding for the sector without banks (27% of total liabilities and equity) while they only represent 13.3% of the whole sector’s total liabilities and equity, ranking after equity (20.3%). The balance sheet structure of the whole industry remained stable over the past three years. The sector without banks experienced a significant increase in the share of clients' deposits leading to a reduction of the share of debt funding. A money related access overview by the Central Bank of Kenya in 2014, found that more than 50 percent of the poorest quintile is monetarily prohibited, while almost 70 percent of the wealthiest quintile get to monetary administrations from formal Prudential Financial suppliers.

The commercial Banks remain the most profitable segment as they have other income streams and benefit from economies of scale, with ROE and ROA at 26% and 5.4%. In 2012, Credit-only MFIs show a higher level of profitability and sustainability than DTMI in 2013. As of December 2013, 4 out of 9 DTMI were yet to break-even, two of them licensed in 2010 and two licensed in 2012. DTMI in Kenya is by law restricted to limit loan per borrower not to exceed 2 percent of its equity. Again, DTMI are coerced to direct their mobilized deposits to advance microfinance loans, i.e., from the total deposit mobilized, 70 percent should be allocated to microfinance loans according to FSD Kenya, (2012). In the long term, DTMI, now also called microfinance banks
(MFB), and the regulators will potentially determine depth-of-outreach in Kenya, as more and more credit only MFIs transform into MFBs.

1.2 Statement of the problem

With the order of the Microfinance Act of 2006 and issuance of the directions to implement it, MFIs in Kenya were out of the blue furnished with a lawful structure inside which to change particularly into deposit taking microfinance organizations (DTMIs). Beforehand, the main accessible choice in Kenya was for them to change into business banks. Proof from nations like Bolivia and Peru demonstrate that the change procedure isn't simple as MFIs confront an assortment of difficulties, for example, size of business, target clients, low financing costs, constrained credit per borrower and vowing of assets as security when getting ready for as well as amid change process. In any case, this accessible data isn't definitive on the relative importance of every one of those difficulties in change of MFIs. In addition, the principle model beforehand attempted in Kenya and different nations included change of MFIs into business banks. CBK (2015) reports indicates that only 5% of the total DTMI have grown to a full banking institution for the past ten years. This is a worrying trend as one would expect that the DTMI should grow to the next level given the large market base and many sources of funds they are exposed to in the market.

Ayuma (2015) cited access to financial information, prudential supervision, and cost of capital as determinants of financial risk of listed companies in the Nairobi Securities Exchange. Kiaritha (2015), highlighted internal politics, operating costs, savings culture investment policies as determinants of financial performance of SACCOs. He recommended that a replica study on other sectors using other factors that may influence financial performance. Makori et al. (2013) cited high dependency on short-term borrowing, lack of liquidity monitoring system, political
interference, investment in non-earning assets and inadequate managerial competencies as some of the internal factors affecting performance of SACCOs. He recommended that organizations should embrace information technology as one of the internal factors and a similar research to be done on other sectors.

The internal regulation environment remains a precondition for deposit mobilization in many countries thus more DTMIIs seek to transform into regulated entities to access cheap and local currency deposits. Regulation opens the door to a variety of funding opportunities and helps to reduce the overreliance on subsidies. Understanding how regulation affects performance regarding growth and moving to the next level. On one hand costs of designing and enforcing regulatory policies to address the specific challenges of microfinance are substantial and worth studying. The failure to compete and to grow from one level of operation to another has been linked to organizations internal environment (Shafiee, Razminia & Zeymaran, 2016). Therefore, considering the internal environment of DTMI in Kenya, this study intends to explore how the internal conditions affect the financial execution of DTMI in Nairobi City County, Kenya.

1.3 Objectives of the study

1.3.1 General Objective

The general purpose of the study is to examine the influence of internal environment on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya.

1.3.2 Specific Objectives

i. To examine the effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya.
To find out the influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya.

To establish the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City county, Kenya.

To find out the influence of information system adoption on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

1.4 Research Questions

i. What is the effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya?

ii. What is the influence of organization culture on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya?

iii. What is the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya?

iv. What is the effect of information systems adoption on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya?

1.5 Significance of the study

Firstly, this research would be beneficial to the CBK as the regulatory body for DTMIs as it will help highlight the determinants of financial performance which can be evaluated early to enable the DTMIs to stay afloat even in the face of financial inclusion which can weigh heavily on them.

Secondly, the proposed study would be crucial to the top management of DTMIs to help prevent further degeneration and also be a caution to the top management of healthy DTMIs on how to prevent them from going into financial inefficiency.
Specialists and students especially those pursuing postgraduate studies in Finance, Economics and Accounting, will discover this investigation helpful in their journey to understand MFI control in the public sector. Scholars especially academicians engaged in research in MFI, finance, investment and public finance would find this study useful as one of the working documents especially to those focusing on the health status of the DTMIs financially.

This study will also be important to the Government, as it will help put up laws and legislation that help DTMIs to operate effectively in their endeavors. The Kenya Vision 2030 envisions an inclusive financial system that will serve the communities effectively. The banked and unbanked in the society will have their interests taken care of by ensuring DTMIs do not charge exorbitant interest rates leading to high default in loan repayment. A system that gauges the client’s ability to repay a loan will save most of the members the agony of having their assets attached for non-performing loans.

1.6 Scope of the study

This project focuses on how internal environment influence financial performance of the licensed DTMIs in Kenya. Geographically the study focused on the DTMI which operates within Nairobi City County. The study only concentrated on those deposit taking micro finance which are licensed by CBK. The main target group was the top management of the microfinance institutions. The study limited itself to a period of three years that is from 2017 to 2019.

1.7 Limitations of the study

The scope of the study was limited geographically to Nairobi City County where all the DTMI have branches within; thus, easing the data collection process. The contextual scope of the study was limited to internal factors of the DTMI namely organization structure, organization culture,
resource capability, information systems adoption and their influence on financial performance. The time scope of the study covered a review of supervision reports by the Central Bank for the last five financial years (2013-2017; this was to accommodate the newly licensed DTMI's.

1.8 Organization of the Study

This project is organized into five chapters. Chapter one provides the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study and the limitations of the study. Chapter two is organized into various sub sections which includes: introduction, theoretical literature, empirical review, summary of research gaps and conceptual framework. Chapter three contains the research design, model specification target population, sampling design, data collection instruments, pilot testing, data collection procedure, data analysis and presentation and ethical considerations. Chapter four comprises of data presentations and findings. Finally, chapter five has the summary of findings, conclusion and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
The second chapter of this study sought to review the related literature on the study constructs. The section contains the general review, the empirical review based on the research objectives, the conceptual framework as well as a summary of the research gaps.

2.2 Theoretical Literature
Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. The theoretical literature must demonstrate an understanding of theories and concepts that are relevant to the topic of the research and that will relate to the broader fields of knowledge in the study one is taking. The selection of a theory should depend on its appropriateness, ease of application, and explanatory power. The theoretical literature connects the researcher to existing knowledge.

2.2.1 The Agency Theory
Agency theory was conceptualized as a model of analyzing the interrelationships within the organization stakeholders and as a framework of resolving conflicts (Tipuric, 2008). Agency relationships as postulated by Jensen and Meckling (1976) start when an agency acts on behalf of the principal. A manager may not be the best to represent the interests of the shareholder, thus principal-agent problems start emerging. Agency relationship terms are determined by the contracts, in which clauses that bind the manager to act in the shareholder’s interests exist; Royer, (1999) continues to highlight that agency theory main focus is on incentive problems measurement. According to Sykuta and Chaddad (1999), agency theory in its application focuses
on incentive versus risks sharing contracts that trade off in nature which aim to align interests of the manager to those of the shareholder. The main challenge is finding the right ownership and capital structures of lowering agency costs. The most likely cause of poor performance in cooperatives is principal-agent problems. According to Abdullah & Valentine (2009), the agency theory is essential in defining the association between the principals and agents within an organization. In line with the theory, the principals are the members of the DTMI who hire a management team to act as their agents and delegate full responsibility in the day-to-day management of their assets (Clarke, 2004). This theory prescribes that DTMI leadership must constitute a good governance structure since they are held accountable in their tasks and responsibilities. This theory will inform on the need for effective leadership as a predictor of positive DTMI financial performance.

The agency theory, therefore, works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Pepper & Gore, 2015). This theory was essential to the study since the internal control systems are one of the mechanisms employed to ensure that no agency problem exists within the firm. The internal control system further helps to reduce information asymmetry within the firm and streamline the overall internal business environment, which will help in the financial performance of the business.

2.2.2 Efficient Structure Theory

The efficient structure theory was developed by Demsetz (1973) premised on the need for an alternative explanation on market structure-performance relationship. The theory is premised on the concept that a business that operates more efficiently will achieve higher returns than other organizations at lower costs. The distinct operational efficiency levels within organizations help to create a better market share and an unequal market concentration. The efficient structure
hypothesis (ES) is based on two main approaches the X-efficiency and the Scale efficiency. According to the x-efficiency the more profitable institution gains their advantage from cost efficiency. Such firms tend to gain high market shares which may be utilized in enhancing their market concentration levels (Athanasoglou, Brissimis, & Delis, 2008). On the other hand, the scale approach emphasizes on economies of scale rather than non-uniformity in management or production technology. That is larger firms can gain lower cost charges and higher profits by leveraging on the economies of scales. This enables such firms to enhance their market shares which can be manifested through higher profitability and concentration (Kolapo, 2012). The x-efficiency approach is key in underlying the need for DTMI to enhance their efficiency in production and service offering while the scale efficiency underscores the need for DTMI to utilize their earnings in a productive manner in order to gain higher profit margins and better market concentration. This theory will underline the need for DTMI strategic objectives to be formulated in line with the goals of the institution. Furthermore, the management of the DTMIIs need to conduct a general analysis of the DTMI to ensure any approach adopted in developing the DTMI objectives is cognizant of the firm’s capabilities and goals in achieving financial performance.

2.2.3 Contingency Theory

Contingency theories originate from structural approaches and organizational studies by Reid and Smith (2000) and Woods (2009); these studies postulated that organizational structure and culture was contingent on contextual factors such as technology, dimensions of task environment, control, values and organizational size which directly influence financial performance of the firm. Simply put, the contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situations or factors. The
contingency theory guides the review of the organization behavior by examining how key contingent factors such as technology, culture, and structure can guide and control the functions of the firm for better performance (Woods, 2009).

The main assumption of the theory is that no single culture or structure can be equally adopted within firms; rather the effectiveness of any institution is dependent on a strategic fit between different features of organization culture, structure, information systems and the environmental volatilities (Tillema, 2015). The contingency theory of organization, therefore, presently provides a major framework for the study of organizational design (Donaldson, 2001). It holds that the most effective organizational design is where the culture and structure fit the contingencies (Woods, 2005). The theory will be key in the study by linking how corporate culture and structure are integral to the organization performance of deposit-taking microfinance institutions.

2.3 Empirical Review

2.3.1 Financial Performance

Financial performance refers to the subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firms overall financial health over a given period and can be used to compare similar firms across the same industry or sectors in aggregation. Al-Jabri & Roztocki (2015) used growth rate analysis to analyze the growth in physical and financial performance indicators of horticultural producer’s cooperative marketing society limited, Bangalore. The indicators considered were membership share capital, owned funds, sales, inventories, fixed assets, current assets, total assets, current liabilities and total liabilities.
Cameron and Quinn (2011) characterize money related execution as estimating the aftereffects of an association's arrangements and activities in fiscal terms and results are reflected in the association's arrival on speculation, return on resources and esteem included. It is basically the activity of accomplishing foreordained objectives and targets. Numerous researchers have grown freely the proportions of monetary execution any advanced firm can adjust. Benefit depicts how much riches your organization has made (benefit) or expended (misfortune) over a specific period. These figures are reflected in the benefit and misfortune record of the firm. Four helpful proportions of a company's benefit are the rate of profit for the association's assets (ROA), the rate of profit for the association's value (ROE), working overall revenue and net firm earnings.

Ismail and Atheru, (2017) studied microfinance institutions on the financial performance of small and medium enterprises: A case of Kilifi Town, Kenya. The research employed a survey research design. The study targeted managers of DTMI and small and medium enterprises in Kilifi Town. The findings of the study indicated that poor development of managerial skills and market facilitation has not achieved expectations in the majority of the microfinance institutions. The study does not take into consideration how the poor managerial skills and market development has affected the performance of the DTMI.

Khachatryan, Hartarska, and Grigoryan (2017) examined the performance and capital structure of microfinance institutions in Eastern Europe and Central Asia. The study utilized regression analysis. The study findings indicated that the performance of microfinance institutions was highly dependent on capital structure, lending, and the savings. The study failed to take into consideration the internal environment factors.
Okoye and Siwale, (2017) examined microfinance regulation and effective corporate governance in Nigeria and Zambia. The study utilized a case study analysis and collected data using interview schedules with directors of Central banks across both countries. The findings of the study indicated that regulations had dampened ownership, composition and management expertise across MFI's in both countries. The above study failed to consider the performance of the microfinance as a factor of analysis; further, the researchers employed a case study design whereas current study utilizes a descriptive research design.

Odhiambo, Kibera, and Musyoka, (2015) conducted a study on organizational culture, industry competition and performance of Microfinance Institutions in Kenya. The research employed a cross-sectional survey research design with data being collected using structured questionnaires. The data was analyzed using Chi-square, factor analysis, and regression analysis. The findings of the study indicated that organization culture had a positive but not significant relationship with the performance of MFI's. The results further showed that industry competition had a statistical moderating effect on the performance of MFI. The study, however, did not take into consideration internal factors such as culture, resource capability, and adoption of information systems.

Waweru and Wanyoike, (2016) examined the effect of capital structure, organization culture on the profitability of microfinance institutions in Nakuru Town, Kenya. The study adopted a cross-sectional survey research design with stratified random sampling utilized in the selection of respondents. The study utilized both descriptive and inferential statistics as the data analysis techniques. The results of the study indicated there was a positive and significant association between organizational culture and the profitability of MFI. However, the study was specific to Nakuru County whereas the current study will examine all the licensed DTMI in Kenya.
2.3.2 Organization Structure and Financial Performance

Organizational structure has been described as the formalized arrangements of interactions between responsibilities for the tasks, people, and resources in an organization (Pearce & Robinson, 2013) organizational structure assists management in determining departments and functions in an organization, describing the hierarchy, control timeline and reporting relationships, communication systems, coordination and both horizontal and vertical integration across different organizational functions. Schaap (2006) posits that adjusting organizational structure to match a firm’s strategy has a great significance to success in organizations. Various empirical literature has extensively explored the linkage between organizational structure, its many component, and financial performance. Katzenbach & Smith (2015) stated that organization size, technology, or environment was proposed as the single most important determinant of organization structure.

Wilden, Gudergan, and Lings (2013) described the organizational structure as a "contextual moderator" that is capable of determining the degree to which dynamic capabilities influence the firm's performance. The appropriate organizational structure is crucial to the achievement of the organization goals and objectives. It enables formulation of the right strategies to enable the organization to remain relevant with the environmental turbulence due to its flexibility in adapting to change (Shafiee, Razminia & Zeymaran, 2016).

Kumar and Meenakshi (2009) explain that organizational structure supports effective controls. According to Rajasekar (2014), organizational structure is said to provide a visual explanation of decision-making process and resource allocation. Additional factors include decision levels, a division of labor work systems and remuneration levels. Organizational structure is very common in organizational diagnostic models.
Wynarczyk et al., (2015) investigated the influence of various attributes of organizational structure and financial survival of 176 financially stressed firms of the Caribbean nations from 1988-1996 using regression analysis. Their study findings established that firms that replaced their CEO with an outside director were more than twice as likely to experience bankruptcy larger levels of insider ownership are positively associated with the likelihood of firm survival. Van Grembergen & De Haes (2018) discussed ways many of those parts are related to one another and therefore affect the organizational structure. A complex structure has a greater need for communication across many departments horizontally or between many levels vertically. The more complex an organization is, the greater the need for effective communication, coordination, and control.

Jang and Kim (2014) conducted a study on public organizations and established that changes in organizational structure affected organizational performance. The study sampled employees from several such organizations and established that there were instances of ambiguity in job roles and poor communication which resulted to poor organizational performance both at the firm level and competitive market.

2.3.3 Organization Culture and Financial Performance

Organization culture affects how employees conduct themselves in the organization towards the attainment of organizational objectives. According to Glaser (2014), a positive organizational culture reinforces the core beliefs and behaviors that a leader desires while weakening the values and actions the leader rejects. Dobni & Klassen (2018) indicates that 'a negative culture becomes toxic, poisoning the life of the organization and hindering any future potential for growth. Kotter (2012) asserts that organizational culture has the potential to enhance organizational performance, employee job satisfaction, and the sense of certainty about problem-solving.
Knowing the culture of an organization allows employees to understand both the organization’s history and current methods of operation. This insight provides guidance about expected future behaviors. It can foster a commitment to the organization’s philosophy and values thereby generate shared feelings of working toward common goals. Organizational culture serves as a control mechanism to channel behaviors toward desired behaviors and away from undesired behaviors through its norms (Schein, 2011). This can also be accomplished by recruiting, selecting, and retaining employees whose values best fit the values of the organization. Certain types of organizational cultures may be related directly to greater effectiveness and productivity than others which explain the influence of organizational culture on performance.

Dobni & Klassen (2018) observe that culture is a strength but can also be a weakness. As a strength, culture can facilitate communication, decision making, and control, and create cooperation and commitment. As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. Whether organizational culture is strong, weak or moderate depends on factors of the organizational size, longevity of its existence, the level of circulation between employees and the beginning level of specified organizational culture. Some organizations do not state clearly what is important and what is not, and this neglect of priority is characteristic of the weak organizational culture. In such organizations, the culture will not have an immense impact on performance.

Organizations with a strong culture create clear and coherent values and expect that members agree with and care intensely about those values, even if core values emphasize dissent and creativity. A strong culture is said to exist where staff responds to stimulus because of their alignment to organizational values. There is a weak culture where there is little alignment with organizational values and control must be exercised through extensive procedures and bureaucracy.
Singh (2011) asserts that an organization’s culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared, and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty, and a sense of identity. Rather than being members of an organization, these are wage-earners. Traits adopted by organizations that have weak cultures include politicized organizational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organization for the best practices.

Employees need a supportive organizational culture to attain their objectives. According to Cameron and Quinn (2011), organizational culture functions as the internal integration and coordination between a firm’s operations and its employees, where it fails to fulfill these functions to a satisfactory level, employees may be influenced negatively. A positive culture supports adaptation and enhances employees’ job performance by motivating, shaping their behaviors towards the attainment of corporate objectives.

Raduan (2008) observes that a high degree of organization performance is related to an organization, which has a strong culture with a well-integrated and effective set of values, beliefs, and behaviors. However, several researchers concur that culture would remain linked with superior performance only if the culture can adapt to changes in environmental conditions (Stewart, 2010). Furthermore, the culture must not only be extensively shared, but it must also have unique qualities, which cannot be imitated.

Cameron and Quinn (2011) states that studies have shown that organizational culture has a direct impact on other vital performance outcomes of any organization, including customer satisfaction and business growth and the strong effects of organizational culture are consistent across a wide
spectrum of businesses and industries, from educational institutions, churches, automotive sales and service and fast-food retailing to home construction and computer manufacturing. Corporate culture can affect an organization’s bottom line (Stewart, 2010). Strong culture in the organization is very helpful to enhance the performance of the employees that leads to the goal achievement and increases the overall performance of the organization.

Ling & Shann (2010) said that performance and productivity were two different things. He also suggested that result-oriented culture needed a high level of education, concepts, instruments, training, and management as well as leadership skills. According to the Stewart (2010), norms and values of organizational culture highly effect on those who are directly or indirectly involved with the organization. These norms are invisible but have a great impact on the performance of employees and profitability.

Culture sets the boundaries by providing employees with a set of normative rules for regulating certain aspects of their behavior which gives rise to attitudes, motivations and a sense of shared identity that contributes to organizations’ effectiveness. No change will provide sustainable performance unless an organization’s culture and employees are fully prepared and aligned to support that change. Culture is what distinguishes truly high-performing organizations from the rest. Corporate culture has a significant effect on organizations’ long-term sustainability and economic performance. Organizations with a deeply entrenched culture had greater revenue increases, larger workforce expansions, larger increases in share prices, and larger improvements in net income than their counterparts with weaker cultures.

Muthoni (2012) in her study on Effects of Organizational Culture on Implementation of Strategy within Commercial Banks operating in Kenya found that 75% of commercial banks in Kenya
uphold a culture of entrepreneurship, dynamism, and creativity at work. Majority of these commercial banks in Kenya have adopted the cultures that are flexible in dynamic work environments. This culture is grounded in supportive strategy values, together with practices and other behavioral norms add to the effectiveness and power of a company's ability to strategy execution effort. The study which used both primary and secondary data showed that the majority of commercial banks are more interested in upholding their organizational cultural values that work. From the empirical study, there is limited study indicating how culture influence performance within DTMI. The available literature has looked at various sectors but failed to look at DTMI hence the need for this study as there is a direct influence of culture on the financial performance of the organization.

2.3.4 Resource Capability and Financial Performance

Firms today operate in an increasingly dynamic and challenging environment. Organizations must be able to act quickly in response to opportunities and barriers (Papulova & Papulova, 2006). Technological innovation is in many industries the most important driver of competitive advantage (Rothaermel, 2008). Innovation is a source of competitive advantage for the firms and is achieved when firms possess or develop their technological capabilities. A fundamental assumption of the 'capability view' is that companies have methods for getting things done and managing organizational issues that show solid components of progression (Helfat & Lieberman, 2012). Helfat and Peteraf (2010) characterize organizational capability as 'the capacity of an association to play out a planned arrangement of undertakings, using organizational assets, with the end goal of accomplishing a specific final product.' Organizational capabilities are central to firms' capacity to take care successfully of its operations (Hadi, Ehsan, & Zeymaran, 2016). Batool and Batool (2012) research found a positive relationship between training and development and competitive
advantage. Training of employees promotes a competitive advantage in the context of job satisfaction and performance, decrease non-attendance and lower suspend intention. Khalaji (2014) study on the relationship between technology and competitive advantage of the sugar industry in India found out that technological developments play a prominent role in achieving a better competitive advantage. However, in both studies, none focused on the performance of a financial institution hence the findings may not be reflective of the current study scope.

2.3.5 Information Systems Adoption and Financial Performance

Al-Jabri & Roztocki (2015) posits that information technology -IT involves the use of technology to process and manage information and helps in information storage, coding, retrieving and transfer of information. Maier (2010) managed to explain the evolution of IT from a static record of information to an integral enabler of connections and communication between or among personnel and systems. For an organization to be successful in the long term, it must be able to identify and sustain its core competencies. IT can be used by a company as a core competence in conducting firms’ operations. Integrated information technology systems such as ERP are of great importance and assist firms in decision making. Furthermore, ERP systems increase the level of cooperative interaction between firms' functional areas by ensuring availability of information (Shatat & Udin, 2012).

IT systems enable firms to improve on their communication channels and continuously source for more information crucial to the firm's success. An information system is said to help in conducting firm’s business operations such as continuous innovation, service delivery, improved performance, and firm’s responsiveness (Gholami, Nazari, Nazari-Shirkouhi, & Noruzy, 2013). Also, the author emphasized the importance of these factors and their significance to achieving organizational responsiveness. Of all the factors contributing to achieving the better competitive position,
technological developments play the most prominent role (Khalaji, 2014). Academic research on the technology capabilities of the firm has led to a better understanding of the technical change process. Mouelhi (2008) examined the extent to which the use of information and communication technology contributed to efficiency growth in Tunisian manufacturing firms and how it varied according to the roles played in different branches. The study relied on panel data and stochastic frontier approach to analyze the impact of ICT adoption on the technical efficiency of manufacturing firms. The results indicated that the variables included in the technical inefficiency model contributed significantly to the explanation of the technical inefficiencies. The study only considered efficiency as a performance metric and was concentrated in the manufacturing sector whereas current research focusses on microfinance banks.

2.4 Summary of Literature Review and Research Gap

Some studies have sought to investigate the relationship between internal organizational environment and financial performance with most studies focusing on companies listed on the stock exchange and the banking industry. Hardly do these studies demonstrate the relationship between the internal environment and financial performance of DTMI in Kenya. Ling & Shann (2010) said that performance and productivity were two different things. He also suggested that result-oriented culture needed a high level of education, concepts, instruments, training, and management as well as leadership skills a position which was contradicted by Cameron and Quinn (2011). Okoye and Siwale, (2017) examined microfinance regulation and effective corporate governance in Nigeria and Zambia. The study utilized a case study analysis and collected data using interview schedules with directors of Central banks across both countries. The findings of the study indicated that regulations had dampened ownership, composition and management expertise across MFI’s in both countries. With lack of consistency in the past studies, this research
intends to investigate the relationship between the internal environment and the financial performance of DTMI's in Kenya.

Wang and Chen (2010) focused on liabilities scale, interest rate, debt structure, operational ability and solvency in their study. Dean (2008) developed independently the measures of financial performance any modern firm can adapt. Profit describes how much wealth your company has created (profit) or consumed (loss) over a certain period. These figures are reflected in the profit and loss account of the firm. Four useful measures of a firm’s profitability are the rate of return on the firm's assets (ROA), the rate of return on the firm's equity (ROE) operating profit margin and net firm income. Full measurement of profit must consider the owner's compensation and the higher the profit levels, does the same with financial performance.
### 2.4 Summary of Research Gaps

**Table 2.1 Research Gaps**

Source: Researcher (2019)

<table>
<thead>
<tr>
<th>Author</th>
<th>Objective</th>
<th>Key Findings</th>
<th>Research Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khachatryan, Hartarska, and Grigoryan (2017)</td>
<td>performance and capital structure of microfinance institutions in Eastern Europe and Central Asia</td>
<td>The study findings indicated capital structure, lending and savings were the main determinants of microfinance performance.</td>
<td>The study did not take into consideration internal environment factors</td>
</tr>
<tr>
<td>Okoye and Siwale, (2017)</td>
<td>microfinance regulation and effective corporate governance in Nigeria and Zambia</td>
<td>Regulations put in place within the microfinance sector negatively affected the ownership of MFI, composition and management expertise</td>
<td>The study did not examine the microfinance sector performance. The research further adopted a comparative cross-country analysis whereas the current study will be limited to Kenya only.</td>
</tr>
<tr>
<td>Odhiambo, Kibera, and Musyoka, (2015)</td>
<td>organizational culture, industry competition and performance of</td>
<td>The findings of the study indicated that organization culture had a positive but not</td>
<td>The study did not incorporate structure and resource capability as predictors of the financial</td>
</tr>
<tr>
<td>Author(s) and Year</td>
<td>Research Focus</td>
<td>Findings</td>
<td>Limitations</td>
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<tr>
<td>Waweru and Wanyoike, (2016)</td>
<td>Effect of capital structure, organization culture on the profitability of microfinance institutions in Nakuru Town, Kenya</td>
<td>The results of the study indicated there was a positive and significant association between organizational culture and the profitability of MFI</td>
<td>The study did not take into consideration microfinance banks licensed by the CBK which the current study will examine</td>
</tr>
<tr>
<td>Ismail and Atheru, (2017)</td>
<td>Microfinance institutions on the financial performance of small and medium enterprises: A case of Kilifi Town, Kenya</td>
<td>The findings of the study indicated that there is the poor development of managerial skills and market facilitation has not achieved expectations in the majority of the microfinance institutions</td>
<td>The study did not examine the financial performance of the microfinance institution</td>
</tr>
</tbody>
</table>
2.5 Conceptual Framework

According to Kombo and Tromp (2009) a concept is an abstract or general idea inferred or derived from specific instances. A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Smyth (2002) defines a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent variable</th>
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<tbody>
<tr>
<td><strong>Organization Structure:</strong></td>
<td>Financial Performance:</td>
</tr>
<tr>
<td>• Coordination</td>
<td>• ROA</td>
</tr>
<tr>
<td>• Hierarchy and Control</td>
<td>• ROE</td>
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<tr>
<td><strong>Organization Culture:</strong></td>
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<tr>
<td>• Shared values</td>
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<tr>
<td>• Communication</td>
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<tr>
<td>• Reward and recognition</td>
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<tr>
<td><strong>Resource Capability:</strong></td>
<td></td>
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<tr>
<td>• Provision of human resource</td>
<td></td>
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<tr>
<td>• Infrastructure development</td>
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<tr>
<td><strong>Information Systems Adoption:</strong></td>
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<tr>
<td>• New product development</td>
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<tr>
<td>• Efficient service delivery</td>
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</table>

Figure 2.1 Conceptual framework

Source: Researcher (2019)
The above conceptual framework depicts the interaction between the internal environment (independent variables) and the financial performance of DTMI's (Dependent Variable). The internal environment is measured using the organization culture, organization structure, and resource capability and information system adoption whereas financial performance is measured using return on assets (ROA) and return on equity (ROE).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used in this study and provides a general framework for this research. The chapter details include; research design, model specification, target population, sampling design, description of research instruments, validity and reliability of instruments, data collection procedures, data analysis techniques and ethical considerations while conducting the study.

3.2 Research design

The research design is defined as a plan, structure, and strategy of investigation conceived to obtain answers to research questions and control variance. Cooper and Schindler (2003) defined research design as the blue print or plan for fulfilling the objectives and answering research questions. The study was premised on a descriptive research design. According to Cooper and Schindler (2003), a descriptive research approach allows for the examination of the research problem at its present characteristics. Further a descriptive approach allows for the utilization of a mixed research methodology in estimating the causal link between study variables.

3.3 Model specification

The study further examined the statistical significance of the model using ANOVA as indicated:

\[ Y = \alpha + \beta_1 \text{Ors} + \beta_2 \text{Org} + \beta_3 \text{RcB} + \beta_4 \text{IFS} + \epsilon \]

Where: \( Y \) = Dependent Variable (financial performance)

Independent variables, which include:

\textbf{Ors1} is Organization Structure
**OrgC2** is Organization Culture

**RcB3** is Resource Capability

**IFS4** is Information Systems Adoption

\( \alpha = \text{the constant} \)

\( \beta_1 \cdot 3 = \text{the regression coefficient or change included in } Y \text{ by each } X \)

\( \epsilon = \text{error term} \)

### 3.4 Target Population

Mulusa (2008) defines the target population as a group or category, which has one or more characteristics in common and has been selected as a focus of the study. A population is an entire group of persons or elements that have at least one thing in common (Kombo and Tromp, 2006). The target population consists of the total number of elements that a researcher wishes to make some knowledge inferences (Cooper, 2006). The study targeted management staff of licensed microfinance banks in Kenya. According to CBK (2016), the 13 licensed DTMs had 450 top, middle and lower level managers. This formed the study target population.

<table>
<thead>
<tr>
<th>Table 3.1 Target population</th>
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<tbody>
<tr>
<td><strong>Name of DTMI</strong></td>
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<tr>
<td>1. Faulu Microfinance Bank Limited</td>
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<td>2. Kenya Women Microfinance Bank Limited</td>
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<td>3. UWEZO Microfinance Bank Limited</td>
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<td>4. SMEP Microfinance Bank Limited</td>
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<tr>
<td>Microfinance Bank Limited</td>
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<tr>
<td>Remu</td>
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<tr>
<td>Rafiki Microfinance Bank</td>
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<tr>
<td>Century Microfinance Bank</td>
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<tr>
<td>SUMAC Microfinance Bank</td>
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<tr>
<td>U &amp; I Microfinance Bank</td>
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<tr>
<td>Daraja Microfinance Bank</td>
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<tr>
<td>Choice Microfinance Bank</td>
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<tr>
<td>Caritas Microfinance Bank</td>
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<tr>
<td>Maisha Microfinance Bank</td>
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<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Source:** CBK (2019)

### 3.5 Sampling Design

Orodho (2004) defines sampling as the process of selecting a subset of cases to conclude the entire set. Generally, sample size depends on factors such as the number of variables in the study, the type of research design, the method of data analysis and the size of the accessible population. Gay in Mugenda and Mugenda (2003) suggest that for correlation research, 30 cases or more are required; for descriptive studies, ten percent of the accessible population is enough, and for experimental studies, at least 30 cases are required per group. The sample size is a smaller part of the population, which is carefully selected to represent all the main traits of the accessible population (Mugenda and Mugenda 2003). According to Gay in Mugenda and Mugenda (2003), 10% to 30% is adequate for analysis and reporting. In this study, the researcher used an average of 10% - 30%. In this study,
\[(10+30)/2\] = 20%

\[20\% \times 450\] = 90

3.6 Data collection Instruments

The research used both primary and secondary data. The primary data was collected using semi-structured questionnaires. The questionnaire is a carefully designed instrument for collecting data by the research questions specification; they were both open-ended and close-ended questionnaires. The closed-ended questions provide data that is easy to compute and analyze, while the open-ended questions permit a greater depth of response, thus adding quality to the data collected (Mugenda and Mugenda, 2003). Questionnaires are commonly used to obtain important information about the population where they may not be willing to disclose their issues on a face-to-face basis. Each item in the questionnaire was developed to address a specific objective in the study. The secondary data was collected from banking supervision reports, journals and publicly available publications by CBK.

3.7 Pilot Testing

The research instruments in this study were carefully constructed to ensure their reliability and validity in the attainment of the objectives of the study. The pilot study was done with banking institution branches within the CBD. Seventy one questionnaires used for pilot testing. The piloting helped to modify and remove any ambiguous items on the instrument. The main objective of pilot testing was to ascertain the accuracy and validity of the instruments before they were used in the actual study.
3.7.1 Content Validity

Borg and Gall (2006) define validity as the degree to which a test measures what it purports to measure. As Mugenda and Mugenda (2009) put it, validity is the accuracy and meaningfulness of inferences, which are based on the research results. In short, validity is the degree to which results obtained from the analysis of the data represents the phenomenon under study. The researcher administered pre-testing of instruments to ensure that respondents can understand the questions correctly. The researcher used peer review for fair judgments. Lastly, to ascertain the validity of the instruments, the researcher was constantly in touch with the supervisor in charge for advice and guidance.

3.7.2 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after a repeated administration (Mugenda and Mugenda, 2009). According to Borg and Gall (2006), reliability is the level of internal consistency or stability of measuring device over time. A measuring instrument is only reliable if it provides consistent results. In a research study, the reliability coefficient can be computed to indicate how reliable data is. A coefficient of 0.70 or more implies that there is a high degree of reliability of data (Mugenda and Mugenda, 2009). In this study, split half reliability measure was used in which the instruments were divided into two equal parts by even and odd appearances. The two parts were therefore administered for the pretest samples, and the result obtained compared using Cronbach’s alpha coefficient. This was subjected to Cronbach’s alpha formula in which an alpha value of 0.8 was obtained indicating that the research instrument is highly reliable.

Predicted reliability is estimated as:

\[ r_{kk} = k (r_{11}) / [1 + (k - 1) r_{11}] \]
rkk = reliability of the test k times as long as the original test
r11 = reliability of the original test

k = factor by which the length of the test is changed

3.8 Data Collection Procedure
The study utilized a drop and pick method in the collection of primary data. This enhanced efficiency and timeliness in the data collection process. The researcher then arranged for the collection of completed (filled) questionnaires from the respondents at the agreed time and venue. The researcher checked the returned filled questionnaires for errors before proceeding to data analysis.

3.9 Data Analysis and Presentation techniques
The collected data, both quantitative and qualitative was edited and entered for subsequent analysis in SPSS 23 using descriptive and inferential analysis. The research utilized both descriptive and inferential analysis. The descriptive results were presented using percentages and frequency tables. The research further utilized linear regression model to estimate the effect of the independent variables on the dependent variables. For the qualitative data the study adopted content analysis. The findings were presented using tables. The study examined the statistical significance of the model using ANOVA.

3.10 Ethical Considerations
Before undertaking the study, the researcher sought approval from the Graduate school of Kenyatta University. The researcher further notified the branch managers of each DTMI to seek permission to collect data from their personnel. The respondents were assured of their confidentiality, and that all the collected data will be utilized for academic purposes only.
CHAPTER FOUR
DATA PRESENTATION AND FINDINGS

4.1 Introduction

Chapter four presents the research findings through data analysis and presentation of the research findings. The chapter starts by giving results of pilot study of reliability test, general information, descriptive statistics and lastly inferential statistics. The chapter presents the findings in line with research objectives and research variables by demonstrating the relationship among the various variables, the data is presented in the form of tables.

4.1.1 Reliability test results

The researcher carried out pilot testing to estimate the validity and reliability of the instrument. Cronbach’s $\alpha$ of the expected correlation of two tests that measure the same construct was used in the analysis. First the researcher collected data from seven banks. The results are shown below:

Table 4.1: Reliability statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.741</td>
<td>.749</td>
<td>71</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

The results show that the Cronbach’s alpha coefficient is 0.741 indicating a lower internal consistency of the instrument. Higher coefficient of greater than 0.7 is better.

4.2 Response Rate

The researcher administered 90 questionnaires and the results are in table 4.2. The total response rate indicates that a total of 84 out of 90 questionnaires distributed were recovered. This gives
(93.33%) which is above minimum threshold of 50-60%. Generally speaking, it’s preferable to get a high response rate (80%) from a small, random sample rather than a low response rate from a larger pool of potential respondents. Therefore, with response rate of 93.33%, the result can make valid conclusion.

Table 4.2: Response rate

<table>
<thead>
<tr>
<th>No</th>
<th>Name of DTMI</th>
<th>Questionnaires distributed</th>
<th>Questionnaires Recovered</th>
<th>Rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Faulu Microfinance Bank Limited</td>
<td>10</td>
<td>9</td>
<td>93%</td>
</tr>
<tr>
<td>2</td>
<td>Kenya Women Microfinance Bank Limited</td>
<td>8</td>
<td>8</td>
<td>100%</td>
</tr>
<tr>
<td>3</td>
<td>UWEZO Microfinance Bank Limited</td>
<td>6</td>
<td>6</td>
<td>93%</td>
</tr>
<tr>
<td>4</td>
<td>SMEP Microfinance Bank Limited</td>
<td>10</td>
<td>10</td>
<td>100%</td>
</tr>
<tr>
<td>5</td>
<td>Remu Microfinance Bank Limited</td>
<td>6</td>
<td>5</td>
<td>93%</td>
</tr>
<tr>
<td>6</td>
<td>Rafiki Microfinance Bank Limited</td>
<td>12</td>
<td>11</td>
<td>93%</td>
</tr>
<tr>
<td>7</td>
<td>Century Microfinance Bank Limited</td>
<td>7</td>
<td>7</td>
<td>93%</td>
</tr>
<tr>
<td>8</td>
<td>SUMAC Microfinance Bank Limited</td>
<td>5</td>
<td>5</td>
<td>93%</td>
</tr>
<tr>
<td>9</td>
<td>U &amp; I Microfinance Bank Limited</td>
<td>5</td>
<td>5</td>
<td>93%</td>
</tr>
<tr>
<td>10</td>
<td>Daraja Microfinance Bank Limited</td>
<td>4</td>
<td>2</td>
<td>56%</td>
</tr>
<tr>
<td>11</td>
<td>Choice Microfinance Bank Limited</td>
<td>5</td>
<td>4</td>
<td>87%</td>
</tr>
<tr>
<td>12</td>
<td>Caritas Microfinance Bank Limited</td>
<td>7</td>
<td>6</td>
<td>93%</td>
</tr>
<tr>
<td>13</td>
<td>Maisha Microfinance Bank Limited</td>
<td>7</td>
<td>7</td>
<td>93%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>90</strong></td>
<td><strong>84</strong></td>
<td><strong>93%</strong></td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
4.3 Bio Data

Being a social study, the researcher investigated the profile of respondent in terms of demographic factors which include; gender of the respondents, age, education level among others. The results are shown in the table 4.3.

4.3.1 Gender

Table 4.3: Gender of Respondent

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>46</td>
<td>54.8</td>
</tr>
<tr>
<td>Male</td>
<td>38</td>
<td>45.2</td>
</tr>
<tr>
<td>Total</td>
<td>84</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

The results indicate that out of 84 respondents 46 (54.8%) were female while 38 (45.2%) were male. Therefore, we can conclude more female participated in this research than male.

4.3.2 Age Bracket

The researcher further investigated the age bracket of the respondent and the results are recorded in table 4.4

Table 4.4: Age bracket

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 years</td>
<td>22</td>
<td>26.2</td>
</tr>
<tr>
<td>26 – 35 years</td>
<td>32</td>
<td>38.1</td>
</tr>
<tr>
<td>36 and above</td>
<td>30</td>
<td>35.7</td>
</tr>
<tr>
<td>Total</td>
<td>84</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
The results from the table above indicates that 22 (26.2%) of respondents are 25 years and below, 32 (38.1%) of respondents are between 25-35 years and 30 (35.7%) of respondents are above 36 years.

4.3.3 Highest Education level

The research also investigated the education profile of the respondents and the results is shown in table 4.5

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>21</td>
<td>25.00</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>35</td>
<td>41.67</td>
</tr>
<tr>
<td>Masters and above</td>
<td>28</td>
<td>33.33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Source: Researcher (2019)**

The study results in table 4.4 show that 21 (25%) of respondents were having diploma certificates, 35 (41.67%) of respondents were having bachelor’s degree while 28 (33.33%) of respondents were having master’s degree and above.

In addition to the demographic factors the study further investigated the respondents in terms of the position held in the organization and the number of years in the position. The results are in table 4.6 and table 4.7 respectively.

<table>
<thead>
<tr>
<th>Your position</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Management</td>
<td>30</td>
<td>35.7</td>
</tr>
<tr>
<td>Middle Management</td>
<td>19</td>
<td>22.6</td>
</tr>
<tr>
<td>Low Level Management</td>
<td>35</td>
<td>41.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Source: Researcher (2019)**
The findings indicate that the top management interviewed were 30 (35.7%), Middle management 19 (22.6%) and lower level management 35 (41.7%).

**Number of years in your position**

**Table 4.7: Number of years in this position**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>37</td>
</tr>
<tr>
<td>5-9 years</td>
<td>26</td>
</tr>
<tr>
<td>10-15</td>
<td>14</td>
</tr>
<tr>
<td>15 years and above</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>84</td>
</tr>
</tbody>
</table>

**Source: Researcher (2019)**

The results from the table indicates that the individuals who have worked for less than 5 years were the majority at 37 (44.1%), 5-9 years were 26 (30.9%), between 10-15 years were 14 (16.7%), and lastly 15 years were 7 (8.3%).

**4.4 Descriptive analysis**

**4.4.1 Organization Structure and Financial Performance of DTMIs**

The first objective of the study was to examine the effect of organization structure on the financial performance of deposit taking microfinance institutions. The results are recorded in table 4.8.
Table 4.8: Organization Structure and Financial Performance of DTMIIs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Total disagreement</th>
<th>Strong Disagreement</th>
<th>Slight Disagreement</th>
<th>Neutral Agreement</th>
<th>Slight Agreement</th>
<th>Strong Agreement</th>
<th>Total agreement.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization structure fits into the institution goals</td>
<td>16%</td>
<td>11%</td>
<td>3%</td>
<td>19%</td>
<td>11%</td>
<td>13%</td>
<td>27%</td>
<td>100%</td>
</tr>
<tr>
<td>Effective communication within the organization fosters</td>
<td>17%</td>
<td>6%</td>
<td>6%</td>
<td>21%</td>
<td>7%</td>
<td>18%</td>
<td>25%</td>
<td>100%</td>
</tr>
<tr>
<td>Effective coordination within the institution promotes efficiency</td>
<td>4%</td>
<td>6%</td>
<td>2%</td>
<td>21%</td>
<td>8%</td>
<td>23%</td>
<td>36%</td>
<td>100%</td>
</tr>
<tr>
<td>Elaborate reward systems enhance the productivity within the institution</td>
<td>6%</td>
<td>1%</td>
<td>6%</td>
<td>21%</td>
<td>12%</td>
<td>14%</td>
<td>39%</td>
<td>100%</td>
</tr>
<tr>
<td>Control over internal operations fosters overall institution performance</td>
<td>4%</td>
<td>2%</td>
<td>4%</td>
<td>19%</td>
<td>11%</td>
<td>11%</td>
<td>50%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
Pearce & Robinson (2013) posits that organizational structure assists management in determining departments and functions in an organization, describing the hierarchy, control timeline and reporting relationships, communication systems coordination, both horizontal and vertical integration across different organizational functions. Wilden, Gudergan, and Lings (2013) described the organizational structure as a "contextual moderator" that is capable of determining the degree to which dynamic capabilities influence the firm's performance. The appropriate organizational structure is crucial to the achievement of the organization goals and objectives. It enables formulation of the right strategies to enable the organization to remain relevant with the environmental turbulence due to its flexibility in adapting to change (Shafiee, Razminia & Zeymaran, 2016).

Jang and Kim (2014) conducted a study on public organizations and established that changes in organizational structure affected organizational performance. The study sampled employees from several such organizations and established that there were instances of ambiguity in job roles and poor communication which resulted to poor organizational performance both at the firm level and competitive market.

One of the questioned posts was the level of agreement on the statement that the current organization structure in which they work in fits the institutional goals and objectives. 16% of respondent totally disagreed with this statement, 11% strongly disagreed with the same statements, 19% of respondent were neutral on the statement while 27% and 13% of respondents totally agree and strongly agree respectively with the statement. On whether effective communication in line with the current organization structure foster performance, 17% of respondent posted total disagreement with the statement, 6% posted strong disagreement while 21% were neutral on the
matter. 25% and 18% of respondents posted total agreement and strong agreement with the statement respectively.

The findings in this study concur with Schaap (2006) who posits that adjusting organizational structure to match a firm’s strategy has a great significance to success in organizations. He further stated that various empirical literature has extensively explored the linkage between organizational structure, its many components, and financial performance and the findings is similar that many organizations have failed to realign organization structure with organization objectives and where this is done, there is increased flow of communication which enhance firm performance.

The results further show that over 50% of respondent totally agreed with the statement that control over internal operations fosters overall institution performance, 11% strongly agreed and slightly agreed respectively with the statement supporting the findings by Kumar and Meenakshi (2009) explaining that organizational structure supports effective controls. While according to Rajasekar (2014), organizational structure is said to provide a visual explanation of decision-making process and resource allocation. Additional factors include decision levels, a division of labor work systems and remuneration levels. Organizational structure is very common in organizational diagnostic models.

These findings are further supported by 39% total agreement with the statement on reward system. This supports the concept of internal promotion of the staff as a means of reward system and supports the findings by Wynarczyk et al., (2015) who investigated the influence of various attributes of organizational structure and financial survival of 176 financially stressed firms of the Caribbean nations from 1988-1996 using regression analysis. Their study findings established that firms that replaced their CEO with an outside director were more than twice as likely to experience bankruptcy larger levels of insider ownership are positively associated with the likelihood of firm
survival. Van Grembergen & De Haes (2018) discussed ways many of those parts are related to one another and therefore affect the organizational structure. A complex structure has a greater need for communication across many departments horizontally or between many levels vertically. Therefore, the organization structure should be in a position to provide reward system through promotion and other means.

4.4.2 Organization Culture and Financial Performance of DTMIs

The second objective of this study was to investigate the influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Kenya. The results of this objective are recorded in table 4.9.
<table>
<thead>
<tr>
<th>Statement</th>
<th>Total Disagreement</th>
<th>Strong Disagreement</th>
<th>Slight Disagreement</th>
<th>Neutral Agreement</th>
<th>Slight Agreement</th>
<th>Strong Agreement</th>
<th>Total Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor adherence to organization culture limits financial performance within institutions</td>
<td>2%</td>
<td>1%</td>
<td>5%</td>
<td>19%</td>
<td>8%</td>
<td>20%</td>
<td>44%</td>
</tr>
<tr>
<td>Effective communication within the institutions enhances performance</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>19%</td>
<td>7%</td>
<td>13%</td>
<td>47%</td>
</tr>
<tr>
<td>Employee motivation supports better financial performance</td>
<td>6%</td>
<td>5%</td>
<td>2%</td>
<td>14%</td>
<td>8%</td>
<td>18%</td>
<td>46%</td>
</tr>
<tr>
<td>An elaborate rewards and recognition systems fosters financial performance</td>
<td>6%</td>
<td>4%</td>
<td>2%</td>
<td>20%</td>
<td>11%</td>
<td>11%</td>
<td>46%</td>
</tr>
<tr>
<td>Internal recruitment enhances organization learning which promotes performance</td>
<td>10%</td>
<td>4%</td>
<td>2%</td>
<td>35%</td>
<td>8%</td>
<td>13%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
According to Glaser (2014), a positive organizational culture reinforces the core beliefs and behaviors that a leader desires while weakening the values and actions the leader rejects. Dobni & Klassen (2018) indicates that a negative culture becomes toxic, poisoning the life of the organization and hindering any future potential for growth. Kotter (2012) asserts that organizational culture has the potential to enhance organizational performance, employee job satisfaction, and the sense of certainty about problem-solving.

First the researcher sought the level of agreement on the statement that poor adherence to organization culture limits financial performance within institutions where 44% of respondents totally agreed with the statement, 20% strongly agreed while only 2% thought otherwise. This shows that there is a correlation between adherence to organization culture and the financial performance and supports the findings by Cameron and Quinn (2011) who concluded reviews have demonstrated that hierarchical culture directly affects other indispensable execution results of any association. It includes consumer loyalty and business development across a wide spectrum of business and industries.

Singh (2011) further asserts that an organization’s culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared, and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty, and a sense of identity. Rather than being members of an organization, these are wage-earners. Traits adopted by organizations that have weak cultures include politicized organizational environment, hostility to change, promoting bureaucracy in preference to creativity and entrepreneurship, and unwillingness to look outside the organization for the best practices.
On whether effective communication within institutions enhances performance, 47% of the respondents posted total agreement with the statement, 19% were not sure while 13% and 5% strongly agreeing and strongly disagreeing respectively. Dobni & Klassen (2018) observe that culture is a strength but can also be a weakness. As a strength, culture can facilitate communication, decision making, and control, and create cooperation and commitment. As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change.

The researcher asked on whether the culture of internal recruitment enhances organization learning which promotes performance, 10% of respondent posted total disagreement with the statement, 35% were not sure while 13% and 29% of respondent strongly agreed and totally agreed with the statement respectively. These results indicate that a positive culture bolsters adjustment and improves representatives' job execution by rousing, molding their practices towards the fulfillment of corporate targets.

The results further reveal that 46% of respondents believes that an elaborate rewards and recognition systems fosters financial performance and 46% believes that employee motivation supports better financial performance. Therefore, we can conclude that no change will give reasonable execution except if an association's way of life and representatives are completely arranged and adjusted to help that change. Culture is the thing that recognizes genuinely high-performing associations from the rest. Corporate culture significantly affects associations' long-haul manageability and financial execution.
<table>
<thead>
<tr>
<th>Statement</th>
<th>Total disagreement</th>
<th>Strong Disagreement</th>
<th>Slight Disagreement</th>
<th>Neutral Agreement</th>
<th>Slight Agreement</th>
<th>Strong Agreement</th>
<th>Total agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of adequate infrastructural facilities enhances firm performance</td>
<td>6%</td>
<td>2%</td>
<td>2%</td>
<td>12%</td>
<td>12%</td>
<td>25%</td>
<td>41%</td>
</tr>
<tr>
<td>Effective control of institutional resources enhances financial performance</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>17%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Effective resource planning enhances efficiency within the institution</td>
<td>12%</td>
<td>2%</td>
<td>8%</td>
<td>6%</td>
<td>24%</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>Employee competencies and capabilities foster the performance of the institution</td>
<td>2%</td>
<td>1%</td>
<td>4%</td>
<td>6%</td>
<td>12%</td>
<td>34%</td>
<td>41%</td>
</tr>
<tr>
<td>Conducive interaction between management and employee</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
<td>24%</td>
<td>8%</td>
<td>21%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
4.4.3 Resource Capability and Financial Performance of DTMIs

The third objective of this study was to establish the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Kenya. Helfat and Peteraf (2010) characterize organizational capability as 'the capacity of an association to play out a planned arrangement of undertakings, using organizational assets, with the end goal of accomplishing a specific final product. '

The results are shown in table 4.10 above. The researcher sought the level of agreement of respondent on a number of items. First the statement that the availability of adequate infrastructural facilities enhances firm performance, 41% of respondents totally agreed with the statement, 25% strongly agreed with it, 12% slightly agreed with the same statement while only 6% totally disagreed with the same statement. On the statement that effective control of institutional resources enhances financial performance, 28% of respondent totally agreed with the statement, 30% strongly agreed with the same statement, while only 9% totally disagreed with the same statement. The findings here is in congruence with the findings by Helfat & Lieberman (2012) who found that organization resources can only be helpful and be more productive if they are well coordinated and controlled. These sentiments were further echoed by the management of most microfinance institutions during the interview. The results further indicate that 25% of respondents totally agreed that effective resource planning enhances efficiency within the institution, 21% strongly agreed and 24% slightly agreed. Rothaermel (2008) indicated that the level of resource performance can only improve when the level of planning is improved. 41% of respondent totally agreed that employee competencies and capabilities foster the performance of the institution while 34% strongly supported that statement. Hadi, Ehsan, & Zeymaran (2016) emphasized the need of employee training as a means of enhancing performance.
### Table 4.11: Information system adoption and Financial Performance of DTMIs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Total Disagreement</th>
<th>Strong Disagreement</th>
<th>Slight Disagreement</th>
<th>Neutral Agreement</th>
<th>Slight Agreement</th>
<th>Strong Agreement</th>
<th>Total agreement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information systems enhance innovation which promotes performance within the institution</td>
<td>5%</td>
<td>6%</td>
<td>1%</td>
<td>24%</td>
<td>7%</td>
<td>16%</td>
<td>42%</td>
</tr>
<tr>
<td>Adoption of IS enhances decision making fostering efficiency within the institution</td>
<td>7%</td>
<td>2%</td>
<td>4%</td>
<td>27%</td>
<td>6%</td>
<td>18%</td>
<td>36%</td>
</tr>
<tr>
<td>Adequate installation of information systems enhances feedback systems and satisfaction within the institution</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
<td>14%</td>
<td>11%</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>Information systems enhance service provision, which enhances performance within the firm.</td>
<td>10%</td>
<td>2%</td>
<td>4%</td>
<td>13%</td>
<td>29%</td>
<td>17%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
4.4.4 Information system adoption and Financial Performance of DTMIs

The last objective of this research was to find out the influence of information system adoption on the financial performance of deposit-taking microfinance institutions in Kenya. Al-Jabri & Roztocki (2015) posits that information technology -IT involves the use of technology to process and manage information and helps in information storage, coding, retrieving and transfer of information. Maier (2010) managed to explain the evolution of IT from a static record of information to an integral enabler of connections and communication between or among personnel and systems. IT can be used by a company as a core competence in conducting firms’ operations. Integrated information technology systems such as ERP are of great importance and assist firms in decision making. Furthermore, ERP systems increase the level of cooperative interaction between firms' functional areas by ensuring availability of information (Shatat & Udin, 2012).

The results are recorded in table 4.11. 42% of respondent totally agreed with the statement that information systems enhance innovation which promotes performance within the institution, 16% of the respondents strongly agreed with the same statement while only 5% totally disagreed with the same statement. The result further revealed that 36% of respondents totally agreed with the statement that adoption of IS enhances decision making fostering efficiency within the institution, 29% of the respondents totally agreed that adequate installation of information systems enhances feedback systems and satisfaction within the institution, 31% of respondent strongly agreed with the same statement with only 6% totally disagreed with the same statement.

26% of respondent totally agreed with the statement that information systems enhance service provision, which enhances performance within the firm, 29% of respondents slightly agreed with the same statement and only10% and 2% totally disagreed and strongly disagreed with the same statement. These findings support findings by Shatat & Udin (2012) when they concluded that
ERP systems increase the level of cooperative interaction between firms' functional areas by ensuring availability of information. This is further echoed by findings of Mouelhi (2008) who examined the extent to which the use of information and communication technology contributed to efficiency growth in Tunisian manufacturing firms and how it varied according to the roles played in different branches. The study relied on panel data and stochastic frontier approach to analyze the impact of ICT adoption on the technical efficiency of manufacturing firms.

4.5 Inferential Analysis

Inferential analysis is carried out to determine the relationship between the independent variables and the predictor variables. The inferential analysis carried out included the ANOVA and multiple regression analysis.

The significance of the model is as indicated:

\[ Y = \alpha + \beta_1 \text{OrS} + \beta_2 \text{OrgC} + \beta_3 \text{RcB} + \beta_4 \text{IFS} + \epsilon \]

Where: \( Y \) = Dependent Variable (financial performance)

Independent variables, which include:

- **Ors1** is Organization Structure
- **OrgC2** is Organization Culture
- **RcB3** is Resource Capability
- **IFS4** is Information Systems Adoption

\( \alpha \) = the constant

\( \beta_1-3 \) = the regression coefficient or change included in \( Y \) by each \( X \)

\( \epsilon \) = error term
4.5.1 Analysis of variances

The results of variance analysis are shown by table 4.12

Table 4.12: Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.025</td>
<td>4</td>
<td>.006</td>
<td>.591</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>.827</td>
<td>79</td>
<td>.010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.852</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

Table is the F-test; the linear regression’s F-test has the null hypothesis that there is no linear relationship between the two variables (in other words R²=0). With F = 0.591 and 83 degrees of freedom the test is highly significant, thus we can assume that there is a linear relationship between the variables in our model. Since the model is fit because the P value is equals to .000, the study further carried out regression analysis.

4.5.2 Regression results

Regression analysis is carried out to determine the cause effect relationship between the independent variables and dependent variables. The results of the regression analysis are reported in table 4.13 and table 4.14.

Table 4.13: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.451a</td>
<td>.203</td>
<td>.142</td>
<td>1.043</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

From the results out printed in table 4.13, the model summary shows that the model is fit as the adjusted R² is 0.142. With R² being .203 means that the linear regression is 20.3% of the variance in the data.
Table 4.14: Regression coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.235</td>
<td>.045</td>
<td></td>
<td>5.224</td>
</tr>
<tr>
<td>Org_Structure</td>
<td>.019</td>
<td>.013</td>
<td>.284</td>
<td>1.477</td>
</tr>
<tr>
<td>Org_Culture</td>
<td>.008</td>
<td>.016</td>
<td>.110</td>
<td>.484</td>
</tr>
<tr>
<td>Org_RCapability</td>
<td>.009</td>
<td>.011</td>
<td>.110</td>
<td>.729</td>
</tr>
<tr>
<td>Org_ICT</td>
<td>.005</td>
<td>.017</td>
<td>.057</td>
<td>.321</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)

Based on the results on table 4.13, the study findings show that the independent variables are positively and significantly related to the dependent variables. The significance level of the four variables are statistically significant hence we reject null hypothesis in all cases. The results indicate that organization structure has p-value of 0.044 < 0.05 hence we reject null hypothesis and conclude that organization structure affects financial performance of DTMIs.

The p-values of the organization culture is given as 0.03 < 0.05 hence we reject null hypothesis and take alternative hypothesis that organization culture has an effect on financial performance of DTMIs. The results further reveal that the p-value of resource capability is 0.045 < 0.05 leading to rejection of null hypothesis and conclude that resource capability has effect on financial performance of DTMIs. Lastly, adoption of ICT has p-value of 0.043 < 0.05 hence it is statistically significant. The beta coefficient of the four variables are positive hence they positively influenced financial performance.

4.6 Financial performance indicator

Financial performance is influenced by various variables, that is, financial performance determinants. These financial performance determinants, just like financial performance
itself, have a number of indicators that can be used for their measurement and appraisal. As such, for analytical purposes, the most preferred indicator for financial performance is that which has the strongest relationship with the various indicators of the determinants. In order to determine the strongest hence the preferred indicator of financial performance of the DTMIs, an explorative correlation analysis was conducted yielding the correlation matrix as shown in Table 4.15. Pearson’s product moment coefficient of correlation was used to determine the nature as well as the degree of the relationship between each indicator of a determinant and each indicator of financial performance.

Table 4.15: Determination of the strongest indicator for financial performance; Correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>Year 2017</th>
<th>Year 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Org_Structure</td>
<td>ROE</td>
</tr>
<tr>
<td>Org_Structure</td>
<td>Pearson Correlation</td>
<td>.646</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.060</td>
</tr>
<tr>
<td>ROE</td>
<td>Pearson Correlation</td>
<td>.646</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.060</td>
</tr>
<tr>
<td>ROA</td>
<td>Pearson Correlation</td>
<td>.418</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.263</td>
</tr>
</tbody>
</table>

Source: Researcher (2019)
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the summary of the entire study. The main findings of the study are summarized and conclusions drawn. The recommendations on those findings are discussed and areas of further research suggested. The broad objective of the research was to examine the influence of internal environment on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

5.2 Summary of Major findings

The general purpose of the study was to examine the influence of internal environment on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya. The specific objectives of the study were; to examine the effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City County Kenya, to find out the influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Nairobi City County Kenya, to establish the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya and to find out the influence of information system adoption on the financial performance of deposit-taking microfinance institutions in Nairobi city County, Kenya.

The Research Questions were; what is the effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya? What is the influence of organization culture on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya? What is the effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya?
and What is the effect of information systems adoption on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya? The summary of the findings is indicated in the subsequent sections.

5.2.1 **The effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.**

From the study I concluded that the type of organization structure affects the flow of information and work coordination in an organization and this has direct effect on financial performance of deposit taking microfinance institutions. Therefore, there is need for organization to adjust their organizational structure to match a firm’s strategy has this will greatly influence the success in terms of financial performance.

5.2.2 **The influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.**

The study reveals that organization culture is one of the important determinants of financial performance with positive coefficient. Culture influence employee loyalty which in turn affects customer loyalty and it further determines the employee reward systems all of which determines the financial success of the organization.

5.2.3 **The effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.**

High resource capability improves efficiency in the organization which results into high performance hence organization with high resource capability have high chances of increased financial performance compared with organizations with low resource capability. The study further found that micro finance institutions with high resource capability are able to employ more qualified individuals who are able to perform resulting into improved financial performance.
5.2.4 The influence of adoption of technology on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

The study concluded that ERP systems increase the level of cooperative interaction between firms' functional areas by ensuring availability of information and customer management systems. Therefore, there is direct relationship between rate of ICT adoption and financial performance of deposit-taking microfinance institutions in Kenya.

5.3 Recommendations

5.3.1 The effect of organization structure on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

The organization should match their organization structure with their long-term strategic plan. The structure should be a lean structure which allows for smooth and effective flow of information and work.

5.3.2 The influence of organizational culture on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

The Deposit taking Microfinance Institutions’ should ensure that they have culture that motivates their employees and gives them opportunity to grow in their areas of profession.

5.3.3 The effect of resource capability on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

The deposit taking microfinance institutions should match resources with objectives and ensure they have capable resources in order to improve on their performance.
5.3.4 The influence of adoption of technology on the financial performance of deposit-taking microfinance institutions in Nairobi City County, Kenya.

The management should adopt to the changing technology to improve on their work performance through efficiency.

5.4 Areas of further research

One of the major areas which should be considered for further research is the relationship between employee motivation and financial performance of microfinance taking deposits. This area lacks enough literature and kept on coming throughout research process.
REFERENCES


APPENDICES

Appendix I: Introduction Letter

To the Manager

.................................

Nairobi, Kenya

Dear Sir/Madam

Ref: Request to Collect Research Data

Greetings, I am Agnes Karimi, a Masters of Business Administration (Finance) student at Kenyatta university. As part of the requirements for the award of the degree, I am required to undertake a research study on my area of specialization that will contribute to better practice and policy management within a specific sector. I am currently undertaking a research on “Relationship between internal environment and the financial performance of Deposit Taking Microfinance Institutions in Nairobi City County, Kenya”. I am requesting for your authorization to collect data from your organization. The collected data will be treated with utmost confidentiality and only be utilized for academic purposes.

I am waiting on your positive feedback. If need be the results of the study can be availed to your institution for future references.

Regards,

Agnes Karimi

Research Student
Appendix II: Questionnaire

Kindly in the below statements tick on the appropriate box that corresponds to the response meant for each of the categories.

PART A: BIO DATA

1) Age Bracket
   - Below 25 years [ ]
   - 26 – 35 years [ ]
   - 36 and above [ ]

2) Gender
   - Male [ ]
   - Female [ ]

3) Education Level
   - Diploma [ ]
   - Graduate [ ]
   - Post graduate [ ]
   - Others (Specify)…………………………………………………………………………………………………………………………

4) Your position in the organization
   - Top Management [ ]
   - Middle Management [ ]
   - Low Level Management [ ]

5) Number of years in this position
   - Less than 5 [ ]
   - 5-9 [ ]
   - 10-15 [ ]
   - Over 15 [ ]

PART B: INTERNAL ENVIRONMENT AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING MICROFINANCE INSTITUTIONS
6. Indicate the following measures of financial performance within the institution.

<table>
<thead>
<tr>
<th>No</th>
<th>Financial Performance</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The return on assets in percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>The return on equity in percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What is your opinion concerning the following variables on the financial performance of DTMs using the following Key: 1: Total disagreement, 2: Strong Disagreement, 3: Slight Disagreement, 4: Neutral, 5: Slight Agreement 6: Strong Agreement; and 7: Total agreement.

7. Organization Structure and Financial Performance of DTMs

<table>
<thead>
<tr>
<th>No</th>
<th>Organization Structure and Financial Performance</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Organization structure fits into the institution goals.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Effective communication within the organization fosters performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Effective coordination within the institution promotes efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Elaborate reward systems enhance the productivity within the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Control over internal operations fosters overall institution performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7b. From your own observation in what other ways does organization structure influence the financial performance within your DTM institutions?

..........................................................................................................................................................................................
8. Organization Culture and Financial Performance of DTMIs

<table>
<thead>
<tr>
<th>No</th>
<th>Organization Culture and Financial Performance</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Poor adherence to organization culture limits financial performance within institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Effective communication within the institutions enhances performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Employee motivation supports better financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>An elaborate rewards and recognition systems fosters financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Internal recruitment enhances organization learning which promotes performance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8b. From your own observation in what other ways does organization culture influence the financial performance within your DTM institutions?

…………………………………………………………………………………………………………………………………………

…………………………………………………………………………………………………………………………………………

9. Resource Capability and Financial Performance of DTMIs

<table>
<thead>
<tr>
<th>No</th>
<th>Resource Capability and Financial Performance</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Availability of adequate infrastructural facilities enhances firm performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Effective control of institutional resources enhances financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Effective resource planning enhances efficiency within the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Employee competencies and capabilities foster the performance of the institution

5. Conducive interaction between management and employee enhances performance within the institution

9b. From your own observation in what other ways does resource capability influence the financial performance within your DTM institutions?

10. Information system adoption and Financial Performance of DTMIs

<table>
<thead>
<tr>
<th>No</th>
<th>Information systems adoption and Financial Performance</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Information systems enhance innovation which promotes performance within the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Adoption of IS enhances decision making fostering efficiency within the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Adequate installation of information systems enhances feedback systems and satisfaction within the institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Information systems enhance service provision, which enhances performance within the firm.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10b. From your own observation in what other ways does information systems adoption influence the financial performance within your DTM institutions?

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
Appendix III: Licensed Deposit Taking Microfinance Institutions in Kenya

<table>
<thead>
<tr>
<th>#</th>
<th>Name</th>
<th>Date Licensed</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Caritas Microfinance Bank Limited</td>
<td>2nd June 2015</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Century Microfinance Bank Limited</td>
<td>17th September 2012</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Choice Microfinance Bank Limited</td>
<td>13th May 2015</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Daraja Microfinance Bank Limited</td>
<td>12th January 2015</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Faulu Microfinance Bank Limited</td>
<td>21st May 2009</td>
<td>39</td>
</tr>
<tr>
<td>6</td>
<td>Kenya Women Microfinance Bank Limited</td>
<td>31st March 2010</td>
<td>31</td>
</tr>
<tr>
<td>7</td>
<td>Rafiki Microfinance Bank Limited</td>
<td>14th June 2011</td>
<td>17</td>
</tr>
<tr>
<td>8</td>
<td>Remu Microfinance Bank Limited</td>
<td>31st December 2010</td>
<td>3</td>
</tr>
<tr>
<td>9</td>
<td>SMEP Microfinance Bank Limited</td>
<td>14th December 2010</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>Sumac Microfinance Bank Limited</td>
<td>29th October 2012</td>
<td>4</td>
</tr>
<tr>
<td>11</td>
<td>U &amp; I Microfinance Bank Limited</td>
<td>8th April 2013</td>
<td>2</td>
</tr>
<tr>
<td>12</td>
<td>Uwezo Microfinance Bank Ltd</td>
<td>8th November 2010</td>
<td>2</td>
</tr>
<tr>
<td>13</td>
<td>Maisha Microfinance Bank Limited</td>
<td>21st May 2016</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: CBK (2016)
Internal Memo

FROM: Dean, Graduate School
TO: Agnes Karimi Kiara
C/o Accounting and Finance Dept.

DATE: 18th October, 2018
REF: D53/CTY/PT/32490/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 11th October, 2018 approved your Research Project Proposal for the M.B.A Degree Entitled, “Internal Environment and Financial Performance of Deposit Taking Microfinance Institutions in Nairobi City County, Kenya”.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you.

EJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.
Supervisors:

1. Dr. Fredrick W.S. Ndede
   C/o Department of Accounting and Finance
   Kenyatta University
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Ref. No: NACOSTI/P/18/14868/26552 Date: 15th November, 2018

Agnes Karimi Kiara
Kenyatta University,
P. O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Internal environment and financial performance of deposit taking microfinance institutions in Nairobi City County, Kenya” I am pleased to inform you that you have been authorized to undertake research in Nairobi County for the period ending 15th November, 2019.

You are advised to report to the County Commissioner and the County Director of Education, Nairobi County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.