INFLUENCE OF FINANCIAL MANAGEMENT DYNAMICS ON THE PERFORMANCE OF DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN KENYA

Mogaka, J. O., & Miroga, J.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 7, Iss. 4, pp 878 - 894 November 3, 2020. www.strategicjournals.com, ©Strategic Journals

INFLUENCE OF FINANCIAL MANAGEMENT DYNAMICS ON THE PERFORMANCE OF DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN KENYA

Mogaka, J. O., [1*] & Miroga, J. [2]

[1*] MBA Candidate, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya
[2] Ph.D, Lecturer, Jomo Kenyatta University of Agriculture & Technology [JKUAT],, Kenya

Accepted: November 1, 2020

ABSTRACT

There was little empirical evidence on the relationship between economic capital, reputation asset, capitalization, deposit mobilization and MFI overall performance, a gap that was filled by this study. The study was informed by the signaling theory, agency cost theory, efficiency theory and the economic model of firm performance. The study used descriptive research survey design and targeted 104 respondents in managerial positions from 13 deposit taking microfinance institutions in Kenya from where Yamame's stratified sampling formula was used to get a sample size of 83 respondents. Primary data was collected using structured questionnaire while secondary data was collected by a secondary data collection sheet. Collected data was coded for accuracy of information at the end of every field data collection day and stored both manually and electronically. Computer software- Statistical Package for Social Sciences (SPSS) version 24 was used in data analysis. Both descriptive and inferential statistics showed that all independent variables (economic capital, reputation asset, capitalization, deposit mobilization) significantly influenced MFIs performance (dependent variable). The study concluded that one; efficient use of economic capital as an effective loan loss provisioning strategy can significantly boost performance of deposit taking MFIs. Secondly, deposit taking MFIs that invest in reputation asset and jealously guard their corporate image to key stakeholders and its customers can realize a significant and sustained increase in their performance. Thirdly, effective use of deposit mobilization initiatives can assist deposit taking MFIs to attract and retain more customers, boost their deposit to loan ratio, and consequently have a steady firm performance. The study recommended that one; deposit taking MFIs should have adequate economic capital reserves through effective loan loss provisioning to act as buffers against loan delinquencies. Two, deposit taking MFIs should jealously guard their corporate image so as avoid incurring high reputation costs associated with brand erosion arising from poor public image; and lastly, deposit taking MFIs should craft viable deposit mobilization initiatives that can assist them to attract and retain more customers, boost their deposit to loan ratio, and consequently have stable firm performance.

Key Words: *Economic Capital, Reputation Asset, Capitalization, Deposit Mobilization*

CITATION: Mogaka, J. O., & Miroga, J. (2020). Influence of financial management dynamics on the performance of deposit taking Micro Finance institutions in Kenya**.** *The Strategic Journal of Business & Change Management,* 7 (4), 878 – 894.

INTRODUCTION

Microfinance performance has attracted a lot of attention in both developed and developed countries. Historically, the provision of financial services through Micro Finance Institutions to those with least financial ability was begun by Professor Yunus in 1972. In his wisdom, Yunus started by giving the financially less fortunate loans who would not otherwise have had such an opportunity through the mainstream banking system (Yunus, 2008).

In Kenya, the IMFs Poverty Reduction Strategy Paper (2005) estimated that people living in poverty would have been a staggering 55.4 percent in Kenya by 2001 and later estimated to have risen to more than 56 percent in 2003. In a bid to address this desperate position of affairs, Parker et al. (2000) advised that MFIs can play the financing role of people's economic options in addition to diversifying their incomes and overall improvement of their quality of life.

Most MFIs in both developed and developing countries have come up to boost economic status of the low income earners thus has attracted a number of researches to determine their performance. In Latin America, a sample of 229 microfinance institutions was analyzed based on: outreach, transparency and efficiency pillars. It was established since the year 2001, loan and savings grew at rate of 50 % and 137% respectively. This is widely considered as a successful rate of transformation. During the period, the microfinance institutions experienced positive return on assets. From 1988- 2006, banks covered 36% of the loans while the MFIs had 34.4%. In 2007-2013, banks had 27.7% while MFIs had 47.6% (Kumar & Kabir, 2015).

Sylvester (2010) also asserted that mobilization of deposits is one of the important functions of banking business. It is an important source of working fund for the bank. Deposit mobilization is an indispensable factor to increase the sources of the banks to serve effectively. The success of the banking greatly lies on the deposit mobilization. Performances of the bank depend on deposits, as the deposits are normally considered as a cost effective source of working fund. There are different types of deposits, with different maturity pattern carrying different rates of interests. Deposit mobilization is depending on the cost of deposits. To enhance profitability, banks take steps to minimize the expenditure and are forced to mobilize low cost deposits, a strategy that MFIs can also adopt to boost their performance.

Research revealed that MFIs in Malaysia have operation self-sufficiency and have higher performance in terms of return on asset (ROA) and return on equity (ROE). All these studies used financial metrics in the measurement of performance of microfinance institutions. Accounting profitability was used as a high standard measure of financial sustainability (Cull et al., 2007).

In Rwanda, recent statistics shows that financial sustainability of microfinance institutions has improved because of the support from the district focus for rural development policy inititated by the national government. More than half of them are self-financed and highly efficient and effective in terms of costs and operations, but more research has been suggested to assess the MFIs performance in both financial and non-financial measures (Tehulu, 2016).

The Microfinance Act (2006) defines Microfinance finance institution or a deposit-taking microfinance business as a business in which the person conducting the business holds himself out as accepting deposits on a day-to-day basis. Microfinance banks are registered under the Microfinance Act (2006) and are not fully registered banks but are subject to many of the same conditions under the prudential control of the Central Bank, given that they use customer deposits to raise capital for independent loans (Alastair, 2015). Microfinance banks accept demand deposits and use the deposits as a means to generate capital for the extension of credit to customers (Alastair, 2015).

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

The Kenya's microfinance sector comprises of slightly over 250 MFIs, with only 56 of these being registered with the Association of Microfinance Institutions, an umbrella body. In Kenya as at December 2015, there were12 deposits taking microfinance institutions. Among the major players in the sector, include Faulu Kenya, Kenya Women Finance Trust (KWFT), Small and Medium Enterprise Programme (SMEP), Rafiki Microfinance Bank, Century MFI, Sumac MFI bank limited, Uwezo MFI amongst others (Njenje & Bengi, 2016). Kenya's Micro finance industry focuses on delivering financial services to low-income individuals and Micro and Small Enterprises (MSEs) engaged in non-farm productive activities. Over time, MFIs have introduced significant innovations in products and services, which are patronized by Micro and Small Enterprises (Njenje & Bengi, 2016). The total assets of the microfinance sector registered a stable growth over the past three years with the sector being dominated by banks but of late, most deposit taking MFIs have continue to perform dismally.

Statement of the problem

Existing researches have shown that the microfinance industry, along with all the players in it, is quickly changing (Yenesew, 2014), because the number of microfinance service providers has also increased considerably and with the growth of the industry and the saturation of markets, increased competition has been documented in many countries. In this regard, many microfinance institutions have secured high loan repayment rates, but, so far, relatively few earn profits posing a challenge to MFI's sustainable growth (Addisalem, 2015).

Locally, the microfinance sector in Kenya has experienced extremely high competition evidenced by the shifting market share and profitability. The competition is among the MFIs sector, mainstream commercial banks and the telecommunication money transfer platforms such as Mpesa (Okombo, 2015). According to AMFI (2013), while over the time credit-only institutions have been slowly improving, banks and deposit taking MFIs improved in 2010-2011 but then worsened slightly in 2011-2013. As such, Microfinance banks in Kenya have also reported very high competitive pressure in terms of pricing since they have less flexibility to adjust prices due to their financial structure (IMFI, 2013). In fact poor MFI performance has subjected most MFIs to total closure and downsizing of staff (Arsyad, 2015).

To help address MFI performance issues, many studies have used firm characteristics (Olweny & Shipho, 2011), credit risk management (Gracia & Revilla,2016), asset quality and portfolio management to predict MFI performance (Mian, Haris & Muhammad, 2012), it is still evident that some deposit taking Microfinance institutions in Kenya still report dismal performance with some facing insolvency risks. In this regard, there is little empirical evidence on the relationship between economic capital, reputation asset, capitalization, deposit mobilization and deposit taking MFI's overall performance, a gap that this study endeavored to fill.

Objectives of the Study

The general objective of the study was to examine the influence of financial management dynamics on performance of deposit taking Microfinance institutions in Kenya. The specific objectives were;

- To examine the influence of economic capital on performance of deposit taking Microfinance institutions in Kenya.
- To determine the influence of reputation asset on performance of deposit taking Microfinance institutions in Kenya.
- To assess the influence of capitalization on performance of deposit taking Microfinance institutions in Kenya.
- To evaluate the influence of deposit mobilization on performance of deposit taking Microfinance institutions in Kenya.

The study was guided by the following research hypotheses

- **H_{01}:** Economic capital does not significantly influence performance of deposit taking Microfinance institutions in Kenya.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

- **H_{02}:** Reputation asset does not significantly influence performance of deposit taking Microfinance institutions in Kenya.
- **H_{03}:** Capitalization does not significantly influence performance of deposit taking Microfinance institutions in Kenya.
- **H_{04}:** Deposit mobilization does not significantly influence performance of deposit taking Microfinance institutions in Kenya.

LITERATURE REVIEW

Efficiency Theory

Efficiency theory/x-efficiency theory was developed by Harvey Leibenstein in 1966 to guard welfare of consumers from monopoly, thus product/prices competitions improved quality of products/services. The Efficiency Structure theory asserts that bank performance is not determined by the market concentration but by bank efficiency. This theory is also made up of two distinct hypotheses, namely X-efficiency and Scale–efficiency (Olweny & Shipho, 2011). According to the X-efficiency hypothesis, a bank which operates more efficiently than its competitors can be more profitable due to lower operational costs. Such firms tend to gain larger market shares and thus higher market concentration, however it is argued that concentration alone should not lead to increased profitability (Olweny &Shipho, 2011). Athanasoglou et al. (2008) argue that with other factors held constant, the impact of concentration on profitability should be negligible. Thoraneenitiyan (2010) discusses that banks with better management and practices will be better at controlling costs and earning profits, thus "moving the bank closer to the best-practice, lower bound cost curve."

Agency Cost Theory

The agency cost theory arose from the seminal contributions of Jensen and Meckling (1976). Agency cost theory assumes that firm's financing structure can be used as a mechanism or vehicle by managers and investors solve the free cash flow problem. Agency theory explains that corporate form of organizations is illustrated by professional managers who have little ownership but are running business on behalf of shareholders (owners) who are extensively dispersed characterizes an archetypal principal-agent problem (Gedajlovic & Shapiro, 2002). Agency costs arises from separation of ownership and control, whereby managers maximize their own benefits or employ the firm's resources for personal gains instead of maximizing value of firm or the shareholder's wealth (Mian, Haris & Muhammad, 2012).

Signaling Theory

The signaling theory emanated from Arrow (1972); Spence1973). Signaling theory presupposes that best performing or profitable firms supply the market with positive and better information (Bini, Dainelli & Giunta, 2011). In addition, the signaling theory is one of the theories, which have a clarification for the association between profitability and capital structure (Alkhazaleh & Almsafir, 2014). This theory presupposes that a superior capital structure is an optimistic signal to market worth of the organization (Adeusi, Kolapo &Aluko, 2014). The signaling theory further postulates that majority of the profitable firms signal their competitive power through communicating new and important information to market. Thus, information is disclosed by means of specific indicators or ratios which, very often, measure specific conditions on which to enter into or renew the agency contract (Bini, Dainelli & Giunta, 2011).

Economic Model of Firm Performance

This study is based on economic model of firm performance by Santos and Brito (2012) where they posit that while there is a range of specific models, major determinants of firm-level performance include: (1) characteristic of the industry in which the firm competes; (2) the firm's position relative to its competitors; and (3) the quality or quantity of the firm's resources. These also depend on industry variables (growth, concentration, capital intensity and advertising

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

intensity) and firm variables (firm size, diversification).

Thus the typical economic model of firm performance explains that firm performance can be measured in terms of profitability, growth, market value, customers' satisfaction, employee satisfaction, environmental and social performance. From the economic model of firm performance, this study will measure MFI performance in terms of profitability (ROA), market share growth and customer increase since satisfied customers are assumed not to leave a particular MFI with quality products and service that meets customer needs that translates to overall performance of the MFI in both financial and non-financial terms.

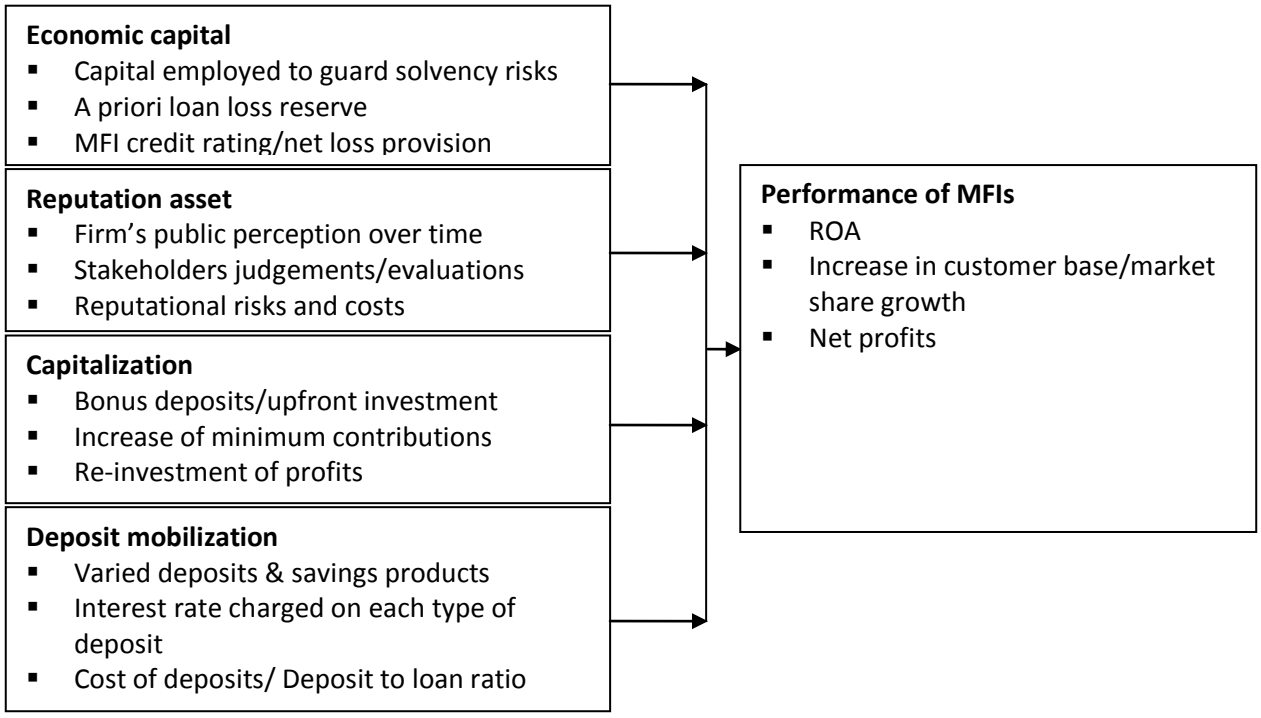

Figure 1: Conceptual framework

Empirical Literature Review

Podder and Mamun (2004) carried out a study on economic capital using loan loss provisioning system in Bangladesh banking where the findings were that classification of loans does not ensure the improvement of the loan default situation, since classification does not ensure collection. What classification does is to make a provision as per the Bangladesh Bank requirement and as such gets a tax exemption. The amount of provision is set aside from the profit before provision and taxes to write off the bad loan. Another reality is banks have to incur a huge amount of legal fees and this expense also reduces the net income of the banks and as such reduces the wealth of the banks' shareholders. In this process on a timely basis older classified bad loans may be written off first. If the actual provision kept is not sufficient to write off, then provision can be raised from the current year's profit by reducing that profit (Podder & Mamun, 2004).

Miller and Noulas (2007) found that the more financial institutions being more exposed to high risk loans increases the accumulation of unpaid loans and decreases the profitability thus the need for effective employment of economic capital. This suggests that decline in loan loss provisions are in many instances the primary catalyst for increases in profit margins. Thus, the level of economic capital is an indication of a financial institution's level of

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

solvency preparedness and signals changes in the future performance.

Sabate and Puente (2013) asserted that there is inadequate empirical literature on the relationship between financial performance and corporate reputation, because of one, the lack of theoretical framework and two, the inappropriateness of the methodological tools employed in the explanation of the two-way relationship. According to these scholars, those two, puzzles can be seen as a problem of inconsistency. Indeed, the lag with which corporate reputation affects value and vice versa, the multiplicity of financial performance measures, the use of multi-sector samples and the variety of reputation constructs, could make empirical findings uncertain since there is no support of a firm theory, and the problem of endogeneity keeps unresolved.

Gracia and Revilla (2016) study in in Spain and the United Kingdom (UK), found the relevance of bank reputation in the process of building reliability, trust, and value creation between banks and their stakeholders. Most of them evidenced a one-way positive effect of reputation on banks' profitability or on retention and loyalty of customers.

Mutebi, (2007) asserted that many studies have shown that savings is one of the most crucial financial needs of SACCOs since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system, SACCOs savings is boosted which is vital for their expansion and growth. In Kenya especially, SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized. Some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2007).

Porteous, Collins, and Abrams (2010) also found that supervision of financial lending institutions is ensuring that customers' savings are safeguarded especially when they are invested for income; and The Center for Financial Training (2010) argues that inefficiencies or frustrations by these entities can lead to a disincentive to save by capitalization among the citizens thereby affecting the levels of investments adversely and impacting financial performance negatively.

Wale (2015) asserted that deposit mobilization (Deposit to loan ratio) sustainability of MFIs depends on their saving mobilizing capacity. Deposit to loan ratio is an important indicator for MFIs that mobilize deposits and measures that portion of the MFIs portfolio funded by deposits. The higher the ratio the greater is the MFIs capability to fund it loan portfolio from its deposits and enhances commercialization of microfinance operation. Thus, higher ratio brings down the cost of funds and helps MFIs to rely on internal funding. Deposit mobilization has now becoming more important in Ethiopia as commercial banks seem to be reluctant to fund MFIs portfolio through their debt. Some commercial banks lent to MFIs, with strong third-party guarantee, an initiative meant to boost MFIs performance (Wale, 2015).

Laura, Alfred and Sylvia (2009), to mobilize more deposits, financial institutions offer a range of savings products that are tailored to their particular clientele. They offer the widest variety of specialized savings products, so that their customers have a choice between immediately accessible, liquid products, or semi-liquid accounts or time deposits with accordingly higher interest rates. Simple and clear design of basic savings products enables depositors to easily select the product that best suits their needs. The simple and transparent design of the savings products also enables staff to administer them with ease, reducing administrative costs.

From Katang and Ntui (2008) study, commercial banks take deposits from individual and institutional customers, which they then use to extend credit to other customers. They make money by earning more in interest from borrowers than they pay in interest to those whose deposits they accept. They are different from investment

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

banks and brokerages in that those kinds of institutions focus on underwriting, selling, and trading corporate and municipal. Therefore, one of the most important ways leading to financial performance is the effective use of deposit mobilized extended to customers as generation of interest.

METHODOLOGY

In this study, the researcher used descriptive research survey design. The target population or those cases that contain the desired information consisted of 13 established deposit taking MFIs also known as microfinance banks (MFBs) in Kenya which were all headquartered in Nairobi City County. The researcher used structured questionnaires to collect primary data. Primary data relevant for analysis was obtained from 83 senior employees of 13 deposit taking MFIs. Regression and correlation analysis was used to determine both the nature and the strength of the relationship between variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The linear and multiple regression plus correlation analyses were based on the association between two (or more) variables. SPSS version 24 is the analysis computer software that was used to compute statistical data.

Regression Model

$Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4 + e$

Y = Performance of MFIs

β_0 = Constant

X_1 = Economic capital

X_2 = Reputation asset

X_3= Capitalization

X_4 = Deposit mobilization

$\{\beta_0-\beta_5\}$ = Beta coefficients

e = the error term

FINDINGS AND DISCUSSIONS

Descriptive statistics; economic capital and MFI performance

These are summarized statistics on respondents' perceptions of economic capital's influence on MFI performance.

Table 1: Descriptive Statistics: Economic Capital

Statement	5	4	3	2	1	Mean	SD
Capital employed to guard solvency risks affects the ROA of this MFI	10(12.7)	40(50.5)	6(7.6)	19(24.1)	4(5.1)	3.42	0.839
Provisioning for bad debts affects MFI's ROA	11(13.9)	41(51.9)	5(6.3)	17(21.6)	5(6.3)	3.46	.964
The MFI always reserves specific amount of capital that it needs to ensure that it stays solvent given its risk profile.	8(10.1)	44(55.6)	7(8.9)	16(20.3)	4(5.1)	3.46	0.884
MFI's financial experts converts a given risk to the amount of capital that it's required to support the risk	12(15.2)	42(53.1)	4(5.1)	18(22.8)	3(3.8)	3.53	0.919
Provision expenses expressed as Loan Loss Provisioning Expenses over Average Gross Portfolio affects MFI ROA	10(12.6)	45(57.0)	7(8.9)	15(19.0)	2(2.5)	3.58	0.820
Generally, the MFI's economic capital influences its financial performance	9(11.4)	42(53.2)	8(10.1)	17(21.5)	3(3.8)	3.47	0.872
Valid listwise 79							

Most respondents agreed (50.5%) and strongly agreed (12.7%) that capital employed to guard solvency risks affects the ROA of this MFI, while 51.9% further agreed that provisioning for bad debts affects MFI's ROA, implying that capital employed to guard solvency risks plus provisioning

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

for bad debts really influences MFIs' return on asset. This was also reinforced by 57.0% of respondents who agreed that revision expenses expressed as Loan Loss Provisioning Expenses over Average Gross Portfolio affects MFI ROA.

More so, 55.6% agreed that MFI always reserves specific amount of capital that it needs to ensure that it stays solvent given its risk profile, while 53.1% agreed that MFI's financial experts converts a given risk to the amount of capital that it's required to support the risk, implying that those MFIs that do not adhere to capital reserves and capital risk conversions may not realize a return on their assets.

Lastly, most respondents agreed (53.2%) and strongly agreed (11.4%) that generally, the MFI's economic capital influences its financial performance. This is supported by Elizalde & Repullo, 2016) assertion that economic capital is a measure of risk in terms of capital, that is, it is the amount of capital that a company (usually in financial services) needs to ensure that it stays solvent given its risk profile. The measurement process for economic capital involves converting a given risk to the amount of capital that it's required to support it. The calculations are based on the institution's financial strength (or credit rating) and expected losses which can be also be cushioned by loan loss provisioning in cases of financial lending institutions like MFIs that may suffer financial losses.

Descriptive statistics; reputation asset and MFI performance

These are summarized statistics on respondents' perceptions of how reputation asset can influence on MFI performance. The responses are summarized in table 2.

Table 2: Descriptive Statistics reputation asset

Statement	5	4	3	2	1	mean	SD
MFI's public perception over time affects its market share	7(8.9)	41(51.8)	7(8.9)	19(24.1)	5(6.3)	3.33	0.929
Internal and external stakeholders judgements about our MFI affects its market value	8(10.1)	45(57.0)	8(10.1)	16(20.3)	2(2.5)	3.53	0.811
The MFI's asset based evaluations affects its financial performance	10(12.7)	42(53.1)	6(7.6)	17(21.5)	4(5.1)	3.47	0.917
The MFI's reputation costs influence its financial performance	9(11.4)	44(55.7)	8(10.1)	15(19.0)	3(3.8)	3.52	0.848
Reputations risks have an influence on MFI financial performance	12(15.2)	40(50.6)	5(6.3)	18(22.8)	4(5.1)	3.48	0.953
Generally, the MFI's reputation asset influences its overall performance	11(13.9)	39(49.4)	6(7.6)	20(25.3)	3(3.8)	3.44	0.929
Valid listwise 79							

From table 2, most respondents agreed (51.8%) and strongly agreed (8.9%) that MFI's public perception over time affects its market share, meaning that poor public image can negatively affect MFI growth. This was also supported by 57.0% of respondents who agreed that internal and external stakeholder's judgements about our MFI affect its market value, because they too act marketers of the MFI.

More so, 53.1% agreed that MFI's asset based evaluations affects its financial performance, while 55.7% of respondents agreed that MFI's reputation costs influence its financial performance, implying that asset based evaluations and poor MFI's public image can make it experience high reputation costs trying to redeem its image; thus impacting on its growth. This was reinforced by 50.6% of respondents who agreed that reputations risks have an influence on MFI financial performance.

Further, 49.4% and 15.2% of respondents agreed and strongly agreed respectively that generally, the

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

MFI's reputation asset influences its overall performance, implying that poor MFI's corporate image can make it experience high reputation costs trying to redeem its image. This is supported by Pradhan (2016) assertion that corporate reputation emerged as an assessment of overall firm's actions by all its stakeholders because of the value and actions generated by its identity (goals and missions) and safeguarded by its corporate image (communications and practices), thus many researchers have been concerned with the role of reputation as a company asset that can also influence firm performance. For instance, poor public image can make an existing business firm incur a lot of reputational costs to redeem its public image and attract customers.

Descriptive statistics; Capitalization and MFI performance.

These were summarized statistics on respondents' perceptions of how capitalization can influence on MFI performance. The responses were summarized in table 3.

Table 3: Descriptive statistics; Capitalization

Statement	5	4	3	2	1	mean	SD
The MFI has adopted a viable capitalization policy	7(8.9)	41(51.8)	7(8.9)	18(22.8)	6(7.6)	3.32	0.851
The MFI encourages members to engage in bonus deposits	12(15.2)	39(49.3)	5(6.3)	19(24.1)	4(5.1)	3.46	0.964
The MFI normally floats shares to members of the public	10(12.7)	43(54.3)	7(8.9)	16(20.3)	3(3.8)	3.52	0.873
The MFI encourages members to raise minimum contributions	8(10.1)	42(53.2)	5(6.3)	19(24.1)	5(6.3)	3.37	0.946
The MFI engages in re-investment of profits	9(11.4)	44(55.7)	6(7.6)	17(21.5)	3(3.8)	3.49	0.873
Generally, capitalization policy significantly influence MFI performance	11(13.8)	45(57.0)	4(5.1)	15(19.0)	4(5.1)	3.56	0.906
Valid listwise 79							

From table 3, most respondents agreed (51.8%) and strongly agreed (8.9) that the MFI has adopted a viable capitalization policy while 49.3% and 15.2% of respondents agreed and strongly agreed respectively that the MFI encourages members to engage in bonus deposits as a perceived capitalization measure aimed at boosting MFI customer and capital base.

More so, 54.3% and 12.7% of respondents agreed and strongly agreed respectively that the MFI normally floats shares to members of the public, while 53.2% respondents agreed that the MFI encourages members to raise minimum contributions and a further 55.7% of respondents agreed that the MFI engages in re-investment of profits, implying that MFIs' floating shares to the public and encouraging members to raise minimum contributions can effectively make MFIs raise their capital and attract more customers..

Further, 57.0% and 13.8% of respondents agreed and strongly agreed that generally, capitalization policy significantly influence MFI performance. This is supported by Mutebi, (2007) who asserted that many studies have shown that savings is one of the most crucial financial needs of SACCOs since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system, SACCOs savings is boosted which is vital for their expansion and growth. In Kenya especially, SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized. Some SACCOs compel their members to save and then lock-in their savings until

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2007).

Descriptive statistics; Deposit mobilization and MFI performance

These were summarized statistics on respondents' perceptions of how deposit mobilization can influence on MFI performance. The responses were summarized in table 4.

Table 4: Descriptive statistics: Deposit mobilization

Statement	5	4	3	2	1	mean	SD
The MFI takes its services to the people through its accessible, affordable and flexible service provision.	7(8.9)	44(55.7)	6(7.6)	17(21.5)	5(6.3)	3.39	0.914
Interest rate charged on each type of deposit influence MFI financial performance	10(12.7)	41(51.8)	5(6.3)	19(24.1)	4(5.1)	3.43	0.843
Deposit to loan ratio influence MFI financial performance	9(11.4)	43(54.4)	8(10.1)	16(20.3)	3(3.8)	3.49	0.861
Type of deposits & their maturity period influence MFI financial performance	8(10.1)	40(50.6)	7(8.9)	20(25.3)	4(5.1)	3.35	0.921
The cost of deposits/savings influence MFI financial performance	12(15.2)	39(49.4)	5(6.3)	18(22.8)	5(6.3)	3.44	0.885
Generally, effective deposits mobilization influences MFI financial performance	10(12.7)	42(53.2)	8(10.1)	17(21.5)	2(2.5)	3.51	0.845
Valid listwise 79							

From table 4, most respondents agreed (55.7%) and strongly agreed (8.9%) that the MFI takes its services to the people through its accessible, affordable and flexible service provision; while 51.8% agreed that interest rate charged on each type of deposit influence MFI financial performance,.

Further, 54.4% of respondents agreed that deposit to loan ratio influence MFI financial performance, while 50.6% of respondents agreed that type of deposits & their maturity period influence MFI financial performance, implying that well balanced deposit to loan ratio and varying deposit measures influence MFI growth.

More so, 49.4% and 15.2% of respondents agreed and strongly agreed respectively that the cost of deposits/savings influence MFI financial performance, implying that varying deposits plus the cost of deposits has a bearing on MFIs' growth.

Lastly, most respondents agreed (53.2%) and strongly agreed (12.7%) that generally, effective deposits mobilization influences MFI financial performance. This is supported by Kazi (2012) assertion that, in the banking sector, deposit mobilization is a good scheme intended to encourage customers to deposit more cash with the bank and this money in turn will be used by the bank to disburse more loans and generate additional revenue for them. The main business for banks is accepting deposits and granting loans. The more the loans the banks disburse the more profit they make. Also, banks do not have a lot of their own money to give as loans. They depend on customer deposits to generate funds for granting loans to other customers, thus must have effective deposit mobilization initiatives.

Inferential Analysis

Table 5: Correlations

		Economic Capital	Reputation Asset	Capitalization	Deposit mobilization	MFI performance.
Economic capital	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	79				
Reputation asset	Pearson Correlation	.631**	1			
	Sig. (2-tailed)	.000				
	N	79	79			
Capitalization	Pearson Correlation	.623**	.644**	1		
	Sig. (2-tailed)	.000	.000			
	N	79	79	79		
Deposit mobilization	Pearson Correlation	.648**	.643**	.838**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	79	79	79	79	
MFI performance.	Pearson Correlation	.809**	.769**	.824**	.786**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	79	79	79	79	79

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

Multiple regression analysis

Multiple regression analysis was computed to assess the multiple influence of the study's independent variables (economic capital, reputation asset, capitalization, deposit mobilization) on the dependent variable (performance of deposit taking Microfinance institutions in Kenya). This was after the compulsory assumptions of multiple regression analyses were checked and met. The multiple regression results were shown in table 6.

Table 6: Multiple regression analysis

Model Summary

					Change Statistics			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.897[a]	.805	.795	.56826	.805	76.515	4	74	.000

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	98.833	4	24.708	76.515	.000[a]
	Residual	23.896	74	.323		
	Total	122.730	78			

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

a. Predictors: (Constant), Deposit mobilization, Reputation asset, Economic capital, Capitalization

b. Dependent Variable: Performance of MFIs

Multiple regression analysis in table 6 showed the multiple regression results of the combined influence of the study's independent variables (economic capital, reputation asset, capitalization, deposit mobilization). The model's R squared (R^2) is 0.805 which shows that the study explains 80.5% of variation in performance of deposit taking Microfinance institutions in Kenya, while other factors not in the conceptualized study model accounts for 19.5%, hence, it is a good study model.

Moreover, Analysis of Variance (ANOVA) showed the mean squares and F statistics significant (F = 76.515; significant at *p<.001*), thus confirming the fitness of the model and also implies that the study's independent variables (economic capital, reputation asset, capitalization, deposit mobilization) have significant variations in their significant contributions to performance of deposit taking Microfinance institutions in Kenya.

Further, the values of unstandardized regression coefficients with standard errors indicated that all the study's independent variables (economic capital; β = 0.371 (0.069) at *p<0.05*; reputation asset; β = 0.251 (0.074) at *p<0.05;* capitalization; β = 0.381 (0.116) at *p<0.05,* deposit mobilization; β = 0.424 (0.102) at *p<0.05)* significantly influenced performance of deposit taking Microfinance institutions in Kenya (dependent variable).

Therefore, the study's final multiple regression equation was;

(v) $y= 0.444 +0.371X_1+0.251X_2+ 0.381X_3 + 0.424X_4$

Where;

y= performance of deposit taking Microfinance institutions in Kenya

X_1= economic capital

X_2= reputation asset

X_3= capitalization

X_4= deposit mobilization

Table 7: Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.444	.197		2.249	.027
	Economic capital	.371	.069	.393	5.401	.000
	Reputation asset	.251	.074	.266	3.380	.001
	Capitalization	.381	.116	.354	3.281	.002
	Deposit mobilization	.424	.102	.411	4.138	.000

a. Dependent Variable: Growth of MFIs

Hypothesis testing, interpretation and discussions

First, study hypothesis one (H_{01}) stated that economic capital does not significantly influence performance of deposit taking Microfinance institutions in Kenya. Multiple regression results indicated that economic capital has significant relationship with performance of deposit taking Microfinance institutions in Kenya; (β = 0.371 (0.069) at *p<0.05*). Hypothesis one was therefore rejected. The results indicated that a single increase in economic capital will lead to 0.371 unit increase in the performance of deposit taking Microfinance institutions in Kenya.

Secondly, study hypothesis two (H_{02}) stated that reputation asset does not significantly influence performance of deposit taking Microfinance institutions in Kenya. Multiple regression results indicated that reputation asset has significant relationship with performance of deposit taking Microfinance institutions in Kenya; (β = 0.251 (0.074) at *p<0.05*). Hypothesis two was therefore rejected. The results indicated that a single

improvement in MFI's reputation asset will lead to 0.251 unit increase in the performance of deposit taking Microfinance institutions in Kenya.

Thirdly, study hypothesis three (H_{03}) stated that capitalization does not significantly influence performance of deposit taking Microfinance institutions in Kenya. Multiple regression results indicated that capitalization has significant relationship with performance of deposit taking Microfinance institutions in Kenya; (β = 0.381 (0.116) at $p<0.05$). Hypothesis three was therefore rejected. The results indicated that a single improvement in MFI capitalization initiatives will lead to 0.381 unit increase in the performance of deposit taking Microfinance institutions in Kenya.

Fourthly, study hypothesis four (H_{04}) stated that deposit mobilization does not significantly influence performance of deposit taking Microfinance institutions in Kenya. Multiple regression results indicate that deposit mobilization has significant relationship with performance of deposit taking Microfinance institutions in Kenya; (β = 0.424 (0.102) at $p<0.05$). Hypothesis four was therefore rejected. The results indicated that a single improvement in MFIs' deposit mobilization initiatives will lead to 0.424 unit increase in the performance of deposit taking Microfinance institutions in Kenya.

CONCLUSIONS AND RECOMMENDATIONS

First, the study concluded that efficient use of economic capital as an effective loan loss provisioning strategy can significantly boost performance of deposit taking MFIs. Secondly, deposit taking MFIs that invest in reputation asset and jealously guard their corporate image to key stakeholders and its customers can realize a significant and sustained increase in their performance. Thirdly, deposit taking MFIs that craft feasible capitalization initiatives can boost their seed capital and enhance their overall financial and non-financial performance. Lastly, effective use of deposit mobilization initiatives can assist deposit taking MFIs to attract and retain more customers, boost their deposit to loan ratio, and consequently have a steady firm performance.

First, deposit taking MFIs should have adequate economic capital reserves through effective loan loss provisioning to act as buffers against loan delinquencies. Secondly, deposit taking MFIs should jealously guard their corporate image so as avoid incurring high reputation costs associated with brand erosion arising from poor public image. Thirdly, deposit taking MFIs should craft feasible capitalization initiatives that can enhance their capital base and consequently improve their overall financial and non-financial performance. Fourthly, deposit taking MFIs should craft viable deposit mobilization initiatives that can assist them to attract and retain more customers, boost their deposit to loan ratio, and consequently have stable firm performance.

Areas for further research

First, a longitudinal study can be done on Micro finance banks in Kenya using time series data for a span of five years to assess the efficacy of these financial management practices on financial performance of Micro finance banks. Secondly, a similar study can be replicated in Savings and Cooperative Societies in Kenya so as to compare results.

REFERENCES

Adeusi, C, Kolapo N &Aluko,H (2014). A comparative performance evaluation of the Nigerian banking sector in the post – 2005 consolidation: Through the Camel Rating System. *International Journal of Business and Social Science, 3*(13), 259-268.

Addisalem, G. F. (2015). The Influence of Competition on Performance of Microfinance Institutions in Ethiopia. Unpublished MBA Project. Addis Ababa University, Ethiopia.

Alastair, M. S. (2015). Inclusive Growth: Improving Microfinance Regulation to Support Growth and Innovation in Micro-enterprise*: The Republic of Kenya Background Country Report. Economic and Social Research Council.*

Alfadhl F and Alabdullah,M (2013). *Determinants of bank profitability before and during the crisis: evidence from Switzerland*. *Journal of International Financial Markets, Institutions and Money, 21 (3), 307-327*.

Alfred, Sylvia (2009), Mobilizing Deposits; The Role Of Commercial Banks, Ghana.

Alkhazaleh, J a& Almsafir,A (2014). The impact of internal and external factors on commercial bank profitability in Jordan. *International Journal of Business and Management, 9 (4), 22-30.*

Anglomkliew D. Angela R. & Adina E. D (2009). An empirical analysis of the determinants of bank profitability in Romania. *Annales Universitatis Apulensis Series Oeconomica*, 15(2), 2013, 580-593.

Arsyad, L. (2015). An assessment of performance and sustainability of Microfinance. A case study of Village credit institutions in Gianyar, Bali, Indonesia.

Athanasoglou, P. P., Brissimis, S. N. & Delis, M. D. (2008). *Bank-specific, industry specific and macroeconomic determinants of bank profitability*. *Journal of International Financial Markets, I nstitutions and Money,* 18(2), 121-136.

Barret, S, Beatty, A. & Liao S.(2012) Regulatory capital, Loan Loss Provisioning and Procyclicality, working paper.

Bini, B Dainelli Fand Giunta, M(2011). *An empirical investigation of market structure, efficiency, and performance in Property-Liability insurance*. *Journal of Risk & Insurance, 72* (4), 635-73.

BIS (2016). *Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and Supervision of institutions relevant to financial inclusion.* Bank for International Settlements, Basel

Cooper, D. R. & Schindler, P. S. (2014). Business research methods (12th ed.). New York: McGraw-Hill/Irwin.

Cull, Robert, Asli Demirg¨u¸c-Kunt, and Jonathan Morduch, (2007), Financial performance and outreach: A global analysis of leading microbanks, *The Economic Journal* 107–133.

Dell'Attii , S., & Trotta, A. (2016). Managing Reputation in the Banking Industry. Cham: Spring Publishing International.

Dietrich, A. & Wanzenried G. (2010). Determinants of bank profitability before and during the crisis: evidence from Switzerland, *Journal of International Financial Markets, Institutions and Money*, 21, 307–327.

Economist Intelligence Unit (2011). Country Report; No. 4. Government printing press. Nairobi Kenya

Elizalde A and Repullo R., 2016. Economic capital and regulatory capital: what is the difference? CEPR discussion paper No. 4770.

Fombrun, C. (2017). List of Lists: A Compilation of International corporate reputation ratings. *Corporate reputation Review*, 10, 144-153.

Gedajlovic, G & Shapiro, (2002).) Services and Economic Growth in ASEAN Economies. *Asean Economic Bulletin*, 19(2), 155-169.

Geller, G. (2014). A review and critique on the relation between corporate performance. Amazônia, Organizações e Sustentabilidade, 3(1), 7-26.

Goldstein H (2008), Analyzing and Managing Banking Risk. A Framework for Assessing Corporate Governance and Financial Risk (2nd edition)

Gracia, G & Revilla, C (2016). General Considerations on the Meaning and Interest of Performance. Economics, *Management and Financial Markets*, 11(1), 310-316.

Hamada, M. (2010). Financial Services To The Poor: An Introduction To The Special Issue On Microfinance. The Developing Economies, 48(1), 1-14.

IMFI (2013). Credit Risk Portfolio Management in Microfinance Banks: Conceptual and Practical Insights. *Universal Journal of Applied Science*, 2(6), 111-119

Ismai, N., Kinchin, G., &Edwards, J. A. (2018). Pilot study, does it really matter? learning lessons from conducting a pilot study for a qualitative PhD thesis. *International Journal of Social Science Research, 6*(1), 1-17.

Jain, A., Keneley, M., & and Thomson, D. (2014). Bank Reputation in Australia: a view from the inside. *The Finsia Journal of Applied Finance,* (2), 29-34.

Jensen & Meckling (1976). Use of donor funds in financing MFIs. *Economics Research Journal, 8 (6), 50-58*

Katang, B and Ntui,M (2008), Deposit Mobilization and Socio - Economic Impact: IOSR Journal of Engineering (IOSRJEN).vol4.

Kazi, A. M. (2012). Promoting deposit mobilization and financial inclusion. Paper presented at IMF Seminar.

Kimberlin, C. I., & Winterstein, A. G. (2008). Research fundamentals: Validity and reliability of measurement instruments used in research. *American Journal of Society Health-System Pharmacists, 65*, 2276-2284.

Kothari, C. (2007). Research Methodology – Methods and Techniques (3rd ed.). New Delhi: New Age International Publishers.

Kumar, N & Kabir, M. (2015). Microfinance and Mobile Banking: The Story So Far. CGAP.

Majid, U. (2018). Research fundamentals: study design, population, and sample size. *Undergraduate Research in Natural and Clinical Science and Technology Journal*,2 (1), 1 – 7

Mazlan, M (2014). Effects of internal control systems on financial performance in Uganda Christian University, Uganda. *Micro finance Information Exchange*.Inc.

Mian, Haris& Muhammad, 2012). Determinants of profitability of financial institutions in developing countries: *Research Journal of Finance and Accounting, 5 (6), 41- 49.*

Miller, S. M., & Noulas, A. (2007) Portfolio mix and large bank profitability in the USA. Applied Economics 29, 505–512.

Muiruri, J. K. & Ngari, J. M. (2014). *Effects of financial innovations on the financial performance of commercial banks in Kenya*. *International Journal of Humanities and Social Science, 4 (7), 51-57.*

Mutebi, M (2002). The Role of Informal Microfinance Institutions In Saving Mobilization, Investment and Poverty Reduction. A Case Of Savings And Credit Cooperative Societies 19(61)..

Mutebi, M(2007) Informal Microfinance Institutions in and Poverty Reduction. *International Journal of Humanities and Social Science* 21(32).

Muzahem, R (2011) Factors affecting the Growth of Microfinance Institutions in Namibia. *Journal of Accounting and Finance, 7 (5).*

Mwongera, R. k. (2014). Factors influencing access to Microfinance Credit by Young Women Enterpreneurs' Projects in Athi-River, Machakos County, Kenya.

Njenje, D & Bengi, M (2016). Assessment of the Influence of Financial Factors on the Growth of Microfinance Institutions in Bahati Sub-County, Kenya. *International Journal of Economics, Commerce and Management, 4*(3), 415-437

Okombo, T. O. (2015). Effect of Electronic Banking on Financial Performance of Deposit Taking Micro Finance Institutions in Kisii Town. *IOSR Journal of Business and Management, 17*(2), 90-94.

Olweny, T. & Shipho, T. M. (2011). Effects of banking sectoral factors on the profitability of commercial banks in Kenya. *Economics and Finance Review, 1 (5), 01-30.*

Orodho, A. J. (2003). Essentials of Educational and Social Science Research Method. Nairobi: Masola Publishers.

Parker C, Paye, D. (2000).The effectiveness of Microfinance institutions in financial inclusion: The case of MFIs in Nairobi. Centre for Business Research, Working Paper No. 438.

Podder Mustafa and Mamun, Ansari (2004). Does the loan loss provision affect the banking profitability in case of pakistan? *Asian Economic and Financial Review Journal* 2(7):772-783

Porteous, P, Collins, R and Abrams, H (2010) Perfecting the Market's Knowledge of Monetary Policy," *Journal of Financial Services Research, 18*(2-3), 255-98.

Pradhan, S. (2016). Impact of corporate social responsibility intensity on corporate reputation and financial performance of Indian firms. Business: Theory and practice, 17(4), 371-380.

Prasantha, A. (2007). Performance of Public Sector Commercial Banks, A Case Study of State Bank of Hyderabad, abstract of doctoral dissertation, Finance India.

Sabate, J. M., & Puente, E. (2013). The concept and measurement of corporate reputation: An application to Spanish financial intermediaries. *Corporate Reputation Review, 5*(4), 280-301.

Santos J. B and Brito, L. A. L (2012); Toward a Subjective Measurement Model for Firm Performance. *BAR, Rio de Janeiro, v. 9, Special Issue, art. 6, pp. 95-117.*

Saunders, M., Lewis, P. & Thornhill, A. (2012). Research methods for business students(6th ed.). Harlow: Pearson.

Spence, D (1973). Market structure, efficiency and performance of banking industry. *Banks and Bank Systems, 5 (1), 20-31.*

Sharma B. (2018).Processing of data and analysis. *Biostatistics Epidemiol International Journal, 1*(1), 3-5

Stuart, G. (2011). Microfinance-A strategic management framework. In B. Armendariz, & M. Labie (Eds.), The Handbook of Microfinance (pp. 251-266). Singapour: World Scientific Publishing.

Stiwed, A. (2016). Impact of asset and liability management on profitability of Australian banks. *European Journal of Financial Research, 114*(23-27).

Sylvester, S (2010) Banking and finance, Vaigar Nagarn. Inc.

Tehulu, T. A. (2013). Determinants of Financial Sustainability of Microfinance Institutions in East Africa. *European Journal of Business and Management , 5*(17). 152-158.

Triodos Facet. (2011). Tanzania Microfinance Country Survey Scan. The Netherlands: Triodos Facet.

The Center for Financial Training (2010). Sacco supervision annual report: Deposit taking SACCOs. Inhouse Publication.

Thoraneenitiyan, T (2010) Discussion. *The American finance association; Journal of Finance* Vol. 42 Issue 3, 661–663.

Vong, L.K. (2015), Loans and Profitability of Banks in Macao, AMCM Quarterly Bulletin, Issue No. 15, April, pp.91-107.

Wale, L. E. (2015). Board Structure And Performance In Ethiopian Microfinance Institutions. Corporate Board: *Role, Duties and Composition, 11*(1).

Wright, G..A.N. (2010). A critical Review of Savings Services in Africa and Elsewhere. Nairobi, Kenya.

Wu, M. (2013). Towards a Stakeholder Perspective on Competitive Advantage. *International Journal of Business and Management, 8*(4), 20-29.

Yanus, M. (2015). Grameen Bank: Mirmire, Nepal Rastra Bank.