MANAGEMENT INFORMATION SYSTEMS,
COMPETITION, GOVERNMENT REGULATIONS AND
SUSTAINABILITY OF MICRO FINANCE INSTITUTIONS IN
KENYA

BY
KELVIN MUSYOKA NZOMO

UNITED STATES INTERNATIONAL UNIVERSITY- AFRICA

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MANAGEMENT INFORMATION SYSTEMS, COMPETITION, GOVERNMENT REGULATIONS AND SUSTAINABILITY OF MICRO FINANCE INSTITUTIONS IN KENYA

BY

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A Research Project Report Submitted to the School of Business in Partial Fulfilment of the Requirement for the Degree of Masters of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY- AFRICA

SUMMER 2015
STUDENT’S DECLARATION

I’m the undersigned, I declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ..........................   Date: ..........................

Kelvin Musyoka Nzomo (ID 605103)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ..........................   Date: ..........................

Dr. Maina Muchara

Signed: ..........................   Date: ..........................

Dean, Chandaria School of Business
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ABSTRACT

The general objective of this study is to establish how management information systems, competition and government regulations affect sustainability of micro finance institutions in Kenya. The specific objectives of the study were; to establish the effects of management information systems on sustainability of micro finance institutions in Kenya, to determine the effect of competition on sustainability of micro finance institutions in Kenya and to examine the effects of government regulation on sustainability of micro finance institutions in Kenya. The study was conducted through a descriptive study. The study targeted a population of 31 Microfinance Institutions (MFI) Nairobi County. The targeted population provided an adequate population for the study by representing all MFIs in Kenya as the headquarters are all situated in Nairobi County. Purposive Sampling was used to select 3 senior managers from each MFI thus a sample of 93 respondents were issued with the questionnaire. Data was collected using a survey questionnaire for respondents from various MFIs in Nairobi County. The research was conducted during the months of March to June 2015. The study administered the questionnaire individually to all respondents of the study. The data collected from the questionnaires was checked for completeness and accuracy. A method known as content analysis was used to analyze the qualitative data while the mean score, median, frequency, standard deviations and percentages were used to analyze the quantitative data. Data was also analyzed using correlation and regression analysis Tables and figures were used to represent the data graphically. Management information systems and competition had significant impact on sustainability of micro finance institutions in Kenya. Government regulations had a negative relationship with MFI sustainability. The study concludes that adoption of information management systems, implementation of policies that lay fair market competition field and proper regulation of micro finance institutions all favored the sustainability of MFIs. From the findings the study also recommends the adoption of appropriate technologies by microfinance institutions to enhance growth and sustainability. There is need to promote an open and competitive microfinance environment. This can be facilitated by having unjustified restrictions on entry, ownership or exit, resulting either from the rules to be applied or from enforcement practices. There is need to ensure that there is proper separation between the enforcement of prudential regulation and of the general competition rules. The Study also recommends that the government should involve the
private sector in formulating poverty reduction strategies and explicitly recognize its leading role in financial sector development including the microfinance industry. The study recommends for further research on product development and processes used by MFIs. Also the study recommends on further research on the effect of government regulations on sustainability of MFIs.
ACKNOWLEDGEMENT

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<th>Description</th>
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<tr>
<td>AMFI-K</td>
<td>Association of Microfinance Institutions in Kenya</td>
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<tr>
<td>ASCAs</td>
<td>Accumulating Savings and Credit Associations</td>
</tr>
<tr>
<td>BIMAs</td>
<td>Business Initiatives and Management Assistance Services</td>
</tr>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CSFs</td>
<td>Critical Success Factors</td>
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<td>ICDC</td>
<td>Industrial and Commercial Development Corporation</td>
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<tr>
<td>IRA</td>
<td>Insurance Regulatory Authority</td>
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<tr>
<td>KADET</td>
<td>Kenya Agency for Developmentt of Enterprise and Technology</td>
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<td>KIE</td>
<td>Kenya Industrial Estates</td>
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<td>K-REP</td>
<td>Kenya Rural Enterprise Programme</td>
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<td>KTDC</td>
<td>Kenya Tourist Development Corporation</td>
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<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
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<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<td>ROSCAs</td>
<td>Rotating Savings and Credit Associations</td>
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<tr>
<td>SACCOs</td>
<td>Savings and Credit Co-operative Societies</td>
</tr>
<tr>
<td>UNICEF</td>
<td>United Nations Childrens Fund</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nation Development Programme</td>
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<td>YEDF</td>
<td>Youth Enterprise Development Fund</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The development sector is constantly looking for innovative ideas and approaches to reduce poverty. From the early 1980s, microfinance was popularly acclaimed as an effective tool to alleviate poverty and it spread rapidly across most developing countries. It offers an attractive and simple promise to development partners and poor households that poverty reduction can be achieved through including the poor into the financial system. Microfinance is high on the public (Servet, 2009) and development partners’ agenda as advocated in the G8 Declarations of 2004 and 2005; the UN 2005 World Summit, the Commission on Private Sector Development, the Brussels Programme of Action; and the Africa Commission Report (UNCDF, 2010).

The expansion of microfinance has received significant financial support, most notably grants and subsidies from development partners and foreign governments (Cull, 2009) which claim that microfinance is a powerful poverty alleviation tool (Helms, 2012). Through private firms or non-governmental organisations (NGOs), microfinance institutions (MFIs) deliver financial and non-financial services and products to low-income households (UNDP, 2013) usually with the intention of supporting the development or the expansion of income generating activities.

Microfinance institutions provide loans and professional assistance in business development to poor communities in developing countries. This plays a crucial role in the economic development of many developing countries (Hartungi, 2011). Microfinance institutions provide a variety of products and services including payment services, insurance, micro loans, savings and other deposit products. This also includes any other financial product or service that a commercial bank does not offer to low-income clients in the banking system (Hoque and Chisty, 2011). Micro finance institutions in the sub-Saharan
Africa includes various diverse and geographically spread institutions that provide monetary services to low-income clients, non-governmental organizations, non-bank monetary institutions, cooperatives, rural banks, savings and postal financial institutions and an increasing number of local banks (Lafourcade, 2008).

Microfinance has strived to develop sustainable institutions and its innovation have been replicated from nation to nation, each time with renewed enthusiasm and innovation leading to international accredited practices that have advanced and guided the practice of microfinance (Kiweu, 2009). There is renewed interest for many MFIs in Kenya to keep abreast with the changing landscape given the ongoing developments in the microfinance sector (Gupta, 2008). There are routinely challenges that African MFIs have faced and include lack of appropriate regulatory framework and lack of funds.

Microfinance systems continue to display considerable degrees of inefficiencies in their savings mobilization and allocation of resources. This has been portrayed despite reforms that the respective African countries have laced down (Senbet and Otchere, 2012). On the regular, income remains lower in African countries than other global regions due to the operational and financial costs. Productivity in terms of cost per borrower is lowermost for African MFIs. Adoption of ways of reducing costs while improving standards is vital for African MFIs. This alongside the providing proper legal frameworks and inspiring innovation.

Before the age of microfinance evolution the chance of people living in the rural areas and especially the poor to take up loans was very minimal. The poor especially in developing countries were marginalized and access to traditional banking systems was restricted, therefore the ability to acquire loans could not be realized. Although loans offered to poor people require minimal restrictions the costs associated with lack of repayment are high (Gupta, 2008). Due to the fact that these schemes faced a myriad of challenges like loan defaults the challenges associated with these risks meant that they were in the course to failure for that argument (Kiweu, 2009).
To eliminate these problems microfinance institutions adopted technological ways. Most of the institutions differed vastly in how they provided services but the common factor that they shared was that of lending to groups (Armendariz de Aghion & Morduch, 2010). The great the project by an individual customer the higher the risks associated with borrowing. Therefore individuals tend to form particular groups in order to minimize the risks associated with it. Instances are found where a certain project fails due to certain factors therefore the whole group becomes liable instead of one particular individual. The particular schemes providing the loan would encourage this group lending scheme it encouraged borrowing from various groups.

Since inception microfinance institutions in Kenya have largely developed through concerted grant funding. Most MFIs in Kenya had started off as NGOs and had built significant supply side competencies. The push towards sustainability was therefore not going to be easy for institutions previously focused on free spending outreach drives, rather than sustainable operations. It was also difficult for those that had significantly grown and expanded operations on grant funding to suddenly have to look for alternative sources of capital as donor funds either dwindled or became inadequate to sustain the growth momentum (Macharia, 2008).

During this period, many MFIs seized the moment and incorporated as private capital companies. Others, like K-Rep, chose the route to formal commercial banking with a multiplicity of ownership. By early 2000, the landscape for microfinance was changing, and changing for good. What eventually became clear was that donors were willing to provide funding for capacity building but not capital for lending purposes. This new shift heralded the beginning of an almost desperate search for capital from various sources, a case applicable to all MFIs. Private capital and how MFIs acquire it is completely different from how MFIs woo donors. The strategy in which MFIs are adopting is by managing the asset and liability side of the balance sheet, this strategy is fast developing into suitable a vital ingredient to success. This is true for equity management as is for debt and deposit management, each of which requires separate, but somewhat overlying strategies (Mutua et al, 2012).
Strategies that lead to income generation and funding take place within the sector of transformation from one driven mainly by a mission of ethics, to one that responds to the needs of the private sector. Transformation into the needs of the private sector is well into the microfinance sector and is entirely backed by the private capital. The transition has also experienced its share of difficulties as many MFIs proper frameworks to absorb the private sector. There are however some positive aspects on the microfinance sector that include knowledge management, proper regulatory regimes and increased sector associations among other interventions. Microfinance institutions are developing the technical knowhow to build profitable private capital (Macharia, 2008).

Microfinance institutions evolution to private capital has to play by the introduced set of rules in the private sector. The rules are based on the realization of profit a preference that is not entirely based on the microfinance aim of eliminating poverty. Microfinance institutions are continually adopting professional strategies but most rely on informal approaches to funding. Professional strategies are becoming a vital ingredient for the sustainability of MFIs since development is highly attributed to private funding. Of the 7,000 NGOs providing microfinance services to poor entrepreneurs throughout the world, only a minute percentage has initiated transformation into privately owned, regulated MFIs. However, there is some evidence that most transformed MFIs have achieved encouraging results. They have found new shareholders, increased their equity capital and improved governance, institutional sustainability and outreach to the poor (Hishigsuren, 2009).
1.2 Statement of the Problem

More than one out of five people in the world about 1.4 billion people are regarded as living in poverty (Biekpe, 2010). In Kenya the number of people living below the poverty line stands at 46 percent of the population (UNICEF, 2013). Microfinance is seen as one of the most effective tool to fight poverty in Africa (Biekpe, 2010). This demonstrates the significance of microfinance as a potential tool for poverty alleviation. Notably, increased attention has been paid in recent years to what microfinance entails its objectives, its successes, limitations and its linkage to poverty alleviation. Dr. Mohammed Yunus, a nobel peace prize winner from Bangladesh, led the way with a pilot group lending scheme for landless people. After Yunus set up Grameen Bank many Microfinance Institutions followed his example and provided the poor with an official way to access loans. Microfinance Institutions vary in legal forms, methodologies and missions, but all of them provide financial services to the poor (CGAP, 2012).

Microfinance has a dual goal, that of attaining financial sustainability and reducing poverty, simultaneously. The aspect of sustainability is crucial in poverty alleviation because in order to have a long term impact, microfinance services need to be provided on a continuous basis (World Bank, 2013). Out of the many MFIs that are established only a few are able to maintain sustainability in the long run, such as the Grameen Bank in Bangladesh, Bank Rakyat Indonesia, BancoSol in Bolivia, MiBanco in Lima Peru and ProCredit in Nicaragua, (Barnett, 2011).

Majority of the previous studies have concentrated on impact of MFIs on poverty alleviation in society. However regionally some few studies been done on sustainability. Mutua (2009) studied the effect of information systems on sustainability of pilot purpose community centres in Kenya. He found out that many MFIs lack well functioning information systems that would enable them grow into vigorous institutions. Technology was consistently cited as one of the greatest challenges facing MFIs. He further expounded that information system has the potential to provide several benefits to the industry as a whole and to MFIs in particular; ranging from loan tracking to greater transparency and risk management.
Mutuku (2008) studied the sustainable competitive advantages adopted by KWFT and found out that MFIs tend to have lower outreach when faced with more powerful competition. Increased competition is also associated with lower levels of loan repayment, lower financial performance and lower productivity. (Omino, 2008) studied the effect of central bank policies on challenges facing MFIs and found out that the government regulates the institutions within the financial sector with the aim of protecting customers. CBK has two standard objectives within the banking and micro finance sector; Price stability- to formulate and implement monetary policy in order to attain stability of prices, that is low inflation and to sustain the value of the Kenya shilling against other currencies. Secondly the objective of fostering the liquidity, solvency and proper functioning of a steady, market based system.

It’s against this background that it’s evident that not so much research has been focused on sustainability and its effect on MFIs. This study sought to establish the existing research gap by trying to find the connection between management information systems, competition, government regulations and the sustainability of microfinance institutions in Kenya.

1.3 General objectives

The general objective of the study was to establish how management information systems, competition, government regulations affect sustainability of micro finance institutions in Kenya.

1.4 Specific Objectives

The study was guided by the following specific objectives

1.4.1 To establish the effects of management information systems on sustainability of micro finance institutions in Kenya.

1.4.2 To determine the effect of competition on sustainability of micro finance institutions in Kenya.

1.4.3 To examine the effects of government regulation on sustainability of micro finance institutions in Kenya.
1.5 Significance of the Study

The study is important to the following groups:

1.5.1 Regulators and Practitioners

By focusing on achieving institution, financial sustainability; regulators and practitioners of microfinance in Kenya, the study will contribute towards domestic institution building for financial capacity widening and deepening in locally constituted organizations and funds.

1.5.2 Micro Enterprise

The owners of the micro enterprise will be able to know their contribution towards the success and sustainability of the microfinance institutions which are important to their operations. Eventually, they will take up their ultimate role in supporting the performance of the institutions.

1.5.3 Society

Majority of Kenya’s population are poor and hence depend on MFIs as a source of capital and general finance. The study would give invaluable information to them indirectly, for it would eventually help further MFI sustainability which is a source of finance to them.

1.5.4 Researchers

The study will offer a source of orientation for future studies on microfinance institutions. It will also act a source of literature for academics in the field of entrepreneurship.

1.6 Scope of the Study

The study aimed at establishing how management information systems, competition, and government regulation affect sustainability of microfinance institutions in Kenya. The respondents of the study were the employees of Micro Finance Institutions in as the study believed they provided adequate sample population for the study. The study targeted 31
microfinance institutions based in Nairobi County. The research was conducted between the periods of March 2015- June 2015. The actual numbers of respondents were 84 distributed among the 31 microfinance institutions.

The researcher anticipated to encounter various challenges and limitations in the course of the study. However the major challenges faced were resource based challenges including the limited timelines that were available to the researcher. Data access challenges related to resistance and refusal by MFI’s respondents to provide adequate data for this study. This was brought about by confidentiality, privacy, busy schedules and ignorance issues.

1.7 Definitions of Terms

1.7.1 Microfinance

Microfinance refers to all types of financial intermedial services, savings, credit funds transfer, insurance, pension remittances, provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed, (Khandker, 2008).

1.7.2 Micro-Finance Institution

Micro-finance institution refers to an organization that offers financial services to the very poor. They are also specialized providers of financial services to the micro-enterprises, (Otero, 2009).

1.7.3 Sustainability

Sustainability refers to the ability to continue any given activity into the future within the likely existing resources of an organization, as part of its ongoing budgetary and management processes, (Sharma and Nepal, 2010).

1.7.4 Micro Enterprise

Micro Enterprise refers to a privately owned firm of small capital and a few numbers of employees usually not more than 50, (Robinson, 2012).
1.8 Chapter Summary

The following areas of discussion were included as subsections in the introduction chapter. They are as follows; background of the problem, statement of the problem, purpose of the study, research questions, importance of the study, scope of the study and definition of terms. Chapter two presents literature review, chapter three outlines research methodology, chapter four presents results and findings and chapter five focuses on the discussion, conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on management information systems, competition, government regulation and sustainability of microfinance institutions in Kenya. In specific it reviews the literature on management information systems, competition, government regulation and sustainability of microfinance institutions in Kenya.

2.2 Management Information Systems

A management information system of an institution as defined by Ledgerwood (2009) includes all the systems used for generating the information that guides management in its decisions and actions. The management information system monitors the operations of an institution and provides reports that are considered to be most significant to track. Ledgerwood (2009) identified three major goals for information system. These are transaction processing, customer service and management information. For example, in order for management to make any strategic decisions about products that they have, they would require information on the number of accounts they have, the value of the accounts, the average balances, number of transactions per account, the daily turnover as a percentage of balances, and so on. The importance of management information systems cannot be over emphasised. Systems must be designed to produce information that enables management to make informed strategic decisions.

He emphasised that good information systems would firstly improve the work of field staff, enabling them to better monitor their portfolios and provide better services to their clients. Secondly, they enable managers to monitor their areas of responsibilities, highlighting areas that require immediate attention, and lastly they help senior management to better orchestrate the work of the entire organisation and make well informed operational and strategic decisions (Ledgerwood, 2009).
With regard to the banking industry, Chen (2009) carried out research on the Critical Success Factors (CSFs) for banking. While prior research on CSFs had already been undertaken in the banking industry, Chen sought out to determine the specific strategy underlying bank success, which at the time, had not been carried out. He used the CSF approach to highlight the key information requirements of top management. He hoped that if the critical success factors were identified and controllable, then management would be in a position to improve its potential for success.

Chen (2009) carried out a cross-sectional survey using a target population consisting of 375 local bank managers in Taipei City, Taiwan. A questionnaire was used to collect the necessary data from bank branch managers and respondents were asked to indicate the importance of each of the 25 items which could contribute to success on a five-point Likert scale ranging from very low to very high. The study came up with a list of 25 success items specific to the banking industry. The study grouped the 25 items into four broad factors, which he determined as the four critical success factors in the banking industry: i) the ability of bank operation management, ii) ability of bank marketing, iii) ability of developing bank trademarks and iv) ability of financial market management. The ability of a banks operation management related to internal, and specifically to staff politeness and kindness, the management ability of the bank manager, the speed of handling business, the ability of computerisation, the ability of asset and liability management and the ability of internal auditing and control.

The factors identified were not equally important. The first factor, the ability of bank operation management, was the highest ranking in terms of importance. For example, bank staff members handle large customer transactions on a daily basis and have to face a high frequency of operational activities. The ability of the bank’s operations is critical in ensuring smooth, seamless, and fast service delivery to customers. In order to ensure this smooth, seamless, fast service delivery, the MFI must institute an effective management information system, (Ledgerwood, 2009).
2.2.1 Self-Sufficiency

Unlike official sector financial institutions, Morduch (2010) argued that the greater majority of MFIs were not sustainable, in relations of financial self-sufficiency. About 1% of MFIs were sustainable in 2010 and claimed that no more than 5% would be. Microfinance institutions should be able to cover their operational and financial costs with program revenues (Brau & Woller, 2014). Research carried out at Ohio State University’s Rural Finance Programme led to two principal conclusions that stem from this school of thought (Brau & Woller, 2014) stated that delivery of financial services and financial self-sufficiency were necessary conditions for institutional sustainability. Loans that were subsidized depreciated more quickly than depositor funds from the various MFIs.

Based on arguments made by Navajas, Sheriner, Meyer, Gonzalez-Vega & Rodriguez-Meza (2010) and Mutua, Nataradol, Otero and Chung (2009), it appears as though there is a general consensus that there exists a trade-off between financial self-sufficiency and depth of outreach. Microfinance institutions that have been found to be stable have also tended to loan to clients who are able to repay the loan in time in their respective countries. There is however little evidence that shows that if financial sufficiency is desired, then the very poor would not be reached by MFIs. Mutua, et al (2009) in his study of the Kenya Rural Enterprise Programme (K-REP), found that there was a tension inherent in carrying out programmes that served the poorest of the poor and managing lending programmes in a financial sustainable manner. One is based on humanitarian considerations, while the other is based on financial considerations. In their view, these were conflicting philosophies that impact the sustainability of MFIs.

A study carried out by Christen, Vogel and Rhyne (2011) demonstrated that there were several microfinance programmes that were found to be sustainable at every level of clientele, proving that perhaps it is possible to be self-sufficient and sustainable. The study did not find any correlation between the poverty level of clients and the financial viability of the institutions studied. They found that even in relatively unfavourable settings, the institutions they studied had developed service delivery methods that were tailored to their
clients and so efficient that clients could afford to pay the full cost of the services, making the institution financially viable.

According to Rhyne (2011), one of the fundamental poverty/sustainability questions is whether the services can be delivered at a cost that is affordable to clients. In his view, MFIs that claim that their outreach to the very poor is the reason they’re not fully sustainable, are likely to be inefficient and costly in their operations. The study revealed that the most financially viable programs differed from their less viable peers in their willingness to set interest rates at levels that would fully recover costs. The profitable programs chose to be financially viable, while the other programs that held interest rates down chose to remain subsidy dependent, effectively subsidizing interest rates to clients.

An almost similar study was carried out in Kenya by K’Aol and Ochanda (2013) to determine the major factors that influence the establishment and sustainability of microfinance schemes in Kenya. One of the research questions was to find out the major factors affecting the sustainability of microfinance in Kenya. Financial sustainability was allocated into three sections: financial viability, operational efficiency, and institutional durability. The study involved the collection of primary data from thirty micro-finance institutions in Nairobi, Kenya, through the use of structured questionnaires. Some of the institutions studied included Kenya Women Finance Trust (KWFT), Faulu Kenya, Pride-Africa and Kenya Rural Enterprise Program (K-REP). Concerning financial sustainability and sufficiency, the study found that most institutions could only raise 20% to 40% of their total overheads. The findings also revealed that most MFI schemes had a women participatory rate of between 40% to 60%, and a repayment rate of 80% to 100%.

### 2.2.2 Sustainability of MFIs

The findings of K’Aol and Ochanda (2013) revealed that MFIs use several ways to mobilise financial resources: donors, charging interest rates on loans, charging an administration fee for transactions and applying for soft loans. The study also showed that savings formed less than a quarter (< 25%) of the total portfolio for a majority of the
respondents. Loans however occupied three quarters (75%) of the total portfolio for the majority of respondents. The study showed that the majority of the MFIs disbursed between Kenya Shillings 20,000 and 40,000 on average. The duration for most schemes was between 50 to 90 weeks and the average cost per borrower was KShs 2,500 for most MFIs.

The results and findings of financial sustainability in the study were as follows: (a) sustainability in many MFIs was making a significant dent in poverty and therefore needed to achieve massive scale in order to be profitable; (b) costs had to be kept low - to the lowest minimum per borrower. Cheap loan follow-up mechanisms had to be created in order to enable MFIs to keep their loan recovery costs at a minimum; (c) financial sustainability improved efficiency, and freed MFIs to charge interest and other fees necessary to maintain an appropriate spread over costs; (d) by pushing all administrative expenses below 40%, and costs per borrower to the lowest minimum, MFIs could work towards sustainability; (e) MFIs should aim to earn an interest of 15%-20% in order to cover their costs, and finally (f) it is imperative that MFIs adopt a business approach in their activities. This means that projects should only be accepted on the basis of their viability.

Mutua, et al (2009) addressed stereotypes of the poor as not being bankable and generated lending methodologies that demonstrate that it is possible to provide cost-effective financial services to the poor. Through the use of three case studies, they called into question the traditional thinking on credit for the poor by providing evidence that the poor are able to save, can afford to repay loans made at market interest rates, and that investments in micro and small enterprises are a viable investment opportunity.

One of the cases studied was K-REP, and based on the study, five factors of success emerged for NGO micro financing programmes: first, credit operations units must be commercially viable, able to meet its obligations from its own resources. Secondly, comprehensive operational plans and financial projections must be used to design the entity to ensure effectiveness. Thirdly, clear performance indicators must be established and progress must be tracked. Indicators such as portfolio quality, growth rate of the portfolio,
profitability, and effectiveness of cash flow management must be considered. Fourthly, pricing of loans must take risk into consideration; the main issue for entrepreneurs after all is access of funds, not the cost of the loans. The price of the loan product should therefore be sufficiently high to cover operating costs, cost of funds, loan loss provisions, inflation, and a profit margin. Finally, in order for MFIs to succeed, they must have strong information systems that handle financial and credit operations. In any MFI programme, the avoidance of default is the most important factor (Mutua, et al, 2009). Banks such as the Grameen Bank and Bolivia’s BancoSol have used group-based approaches of lending to individuals to limit instances of default. In K-REPs experience however, the practice of group lending was not very successful.

2.2.3 The economic microfinance theory.

The economic theory portrays MFIs as infant industries. According to Harper (1998), the essence of the economic argument is that accomplishment in business venture including MFIs is determined by the entrepreneurs ability to provide appropriate services and profitability through the technology. MFIs shield their operating costs while some of the well-known among them are able to cover in part the subsidized costs of the capital employed.

2.3 Competition

Competition is the act of striving against another force for the purpose of achieving dominance or attaining a reward. Competitive rivals are organizations with similar products and services aimed at the same customer group (Johnson, Scholes and Whittington, 2009). According to Pearce and Robinson (2008), the essence of strategy formulation is coping with competition. The degree of competitiveness in an industry is not manifested only in the other players, rather, competition in an industry is rooted in its underlying economics, and competitive forces that exist and go well beyond the combatants in a particular industry.
According to Porter (2010), the nature of competition in an industry relies on 5 basic forces, whose combined strength determines the eventual profit potential of an industry. The bargaining power of suppliers in the microfinance sector, the threat of rivalry between firms, the threat of financial substitute products and the bargaining power of clients in the industry. Therefore customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry.

It is extremely rare for an organization to be the sole supplier of a particular good or service. Therefore an organization needs to find out what their competitors are doing and predict what they might do in the future. These activities concern the competitive environment and organizations must remember to consider existing or potential competition from foreign as well as local organizations (Bauer and Colgan, 2011). Given that organizations have competitors, they must consider how this competition can affect the organization and strategize on how to counter it. It is important for an organization to understand the competition because, not only will it enable them to identify segments of their customer base that might be at risk and to formulate a response; but also knowing who they are and how they react enables the organization to calculate their own competitive response to moves they may make. It also helps the organization to focus their efforts on those customers that represent a real or a potential threat rather than those who do not (Russell-Jones, 2014).

2.3.1 Forms of Competition

Porter (2008), states with increased competition leads to the success of firm’s trying to gain the market share in an industry. With such a high level of importance, competition is inevitable within any industry and for every firm. Firms must therefore face up to the challenges of competition. It is through the adoption of a competitive strategy that these challenges are met and overcome. Porter (2008) goes on to explain that the choice of competitive strategy in itself poses several challenges in that a firm must carefully decide which industry it will be in and what position within that industry it will seek to attain. Having made the choice, a firm’s next challenge is the sustainability of its competitive
position over time amid industry evolution and the erosion of its competitiveness through the behavior of other competitors.

According to Churchill and Peter (2008), the nature of the competitive environment depends in part on the type of competition that occurs there; and economists and marketers describe four main types of competition. The first is pure competition, which occurs when similar products are offered, buyers and sellers are familiar with the market, and both buyers and sellers can easily enter the market. Competition here is almost entirely on the basis of price e.g. farming goods/products. The second type is Monopolistic competition, and this is when there are many sellers of a product and each has a relatively small market share e.g. MFIs. The competitors are able to differentiate their offers in whole or part and they focus on market segments where they can meet customer needs in a superior way and command a price premium. The third type of competition is oligopoly competition, and this is where the products are similar and a few sellers control most of the market e.g. air travel, oil and steel industry products, etc., which have high start-up costs; hence why there are small numbers of competitors. The products range from highly differentiated to standardize. The fourth type of competition is Monopoly, which is a market in which only one organization sells a good or service (Porter, 2008)

Most economic texts classify competition as consisting of four key forms namely; pure or perfect competition, monopolistic or imperfect competition, oligopolistic competition and monopolies (Reynolds, 2008). Pure competition and pure monopoly environments are the more extreme forms of competition but rarely occur in the real world. A pure monopoly is characterized by a single seller who controls the supply of a good or service and prevents other businesses from entering the field. According to Karl and Fair (2009), pure competition exists when a large number of sellers produce a certain type of product or service that is slightly differentiated. These sellers have low barriers of entry into the market and easily enter or leave it as they choose. For this reason, focus is accorded mainly to the imperfect forms of competition, namely; oligopolistic and monopolistic competition.

Horney (2010) describes hyper-competition as a form of extreme and unhealthy competition. Johnson, Scholes and Wittington (2009) consider a hypercompetitive market as
one facing turbulent, fast-changing, uncertain business environments and increased levels of competition; they further suggest that infant industries may consist of these characteristics. D’Aveni & Gunther (2008) expound on the notion of competition believing it to be a cycle over time. They believe that over time, any firm’s competitive position may be eroded because competing firms manage to overcome some of the competitive forces as described in Porter’s Five Forces Framework. This process of erosion may be speeded up by changes in the macro-environment such as new technologies, globalization and deregulation. Organizations may then respond to this erosion of their competitive position creating what has been called a cycle of competition as shown below.

**Figure 2.1: Cycles of Competition**

![Diagram of Cycles of Competition](image)

*Source, D’Aveni and Gunther (2008)*

Tucci (2008) expounds on this idea with the notion that competition is an evolutionary process and a matter of life and death. He believes that it implies losses for the individual firms in terms of lost capital resources, wasted labor and lost time but continues to state that such an environment will create a desired effect in the form of innovation in new technologies, new products and business processes.
2.3.2 Competitive Strategies

Strategy according to Thompson and Strickland (2008) may be perceived as a combination of competitive moves and business approaches that managers employ to satisfy organizational vision and objectives. Whereas goals represent the ends which the firm is seeking to attain, strategy is the means to the end (Ansoff, 2010). A unique strategy contributes effectively to the competitiveness of business firms. Strategy has emerged since the 50s as a tool for reorienting the organizational thrust. Good strategy can contribute to growth, profitability, market penetration, cost-reduction, cutting-edge differentiation of products and sustainable competitive advantage of business firms (Prahalad and Hamel, 2010).

Porter (2008) argues that business strategy is all about competition and gaining competitive advantage over rivals in the market. Porter continues to argue that competitive strategy is the ability of a firm to meet and beat the performance of its competitor. The purpose of competitive strategy therefore is to establish a profitable and sustainable position against the forces that determine industry competition. Competitive strategy as a topic is diverse with over 20 years of debate and enhancement (Barney, 2011). Competitive strategy may be viewed from two key paradigms, i.e. endogenous (inward looking) strategies and exogenous (outward looking) strategies. Early works focused on endogenous strategies describing a firm’s strengths and weaknesses such as the Resource Based View of Strategy as summarized in the figure below.
Figure 2.1: The relationship between "SWOT", the RBV, and industry attractiveness

Internal Analysis
(Endogenous Strategy)

Strengths

Resource Based Model

External Analysis
(Exogenous Strategies)

Opportunities

Environmental Models of Competitive Advantage


The performance of a firm may be defined as the measure of the results achieved by that firm. Performance is an abstract concept and must be measured relative to an agreed standard unit of measure or reference point. The main reason for measuring performance is to achieve a perceived improvement in these measures relative to the standard reference point. Potential performance improvement areas of a firm would be its inputs; its throughput; its outputs and finally its outcome (i.e. comparing the output measures to the agreed upon standard performance measure) (Barney, 2011).

In his work, Prescott (2009) sites various academic scholars as being at the forefront of the debate between the relationship between strategy and performance, a relationship whose nature has not yet been resolved. Much of the strategic management literature has focused on the relationship between strategy and performance and considered environments as moderators of that relationship. Recent studies have investigated the relationship between the environment on the one hand, strategy and performance variables on the other (Hambrick, 2009). However Prescott argues that although considerable research has been covered on the topic, it has not adequately addressed the issue of whether environments are
independently related to performance, or they are moderators of the relationship between strategy and performance or some combination of the two.

In order to achieve a performance that may be considered well relative to other firms in the industry, Porter (2010) proposes a strategy that requires a firm to identify growth segments, work at achieving operational efficiency and continuously enhance the quality of its products and services. It is the continuous measurement of these performance indicators and their management that determines the long term direction of the firm and its survival. For the MFI industry in Kenya, not only is the continuous measurement of the key performance metrics important to achieve and maintain competitiveness, but also the strategy formulation and implementation process as well.

Johnson, Scholes and Wittington (2009) propose the use of a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis as a key component during strategy formulation and implementation. Through this framework, a firm may easily identify and manage its strategic capability and be able to stretch or add capabilities as a responsive mechanism to varying degrees of the intensity of competitiveness within the MFI industry. The more dynamic the capabilities built, the timelier the response will be by the particular MFI to changes in the competitive environment.

A key challenge of competition is that of anticipating competitor moves. Although strategy execution is key, it is also important for firms to build a mechanism where they can detect the strategic moves of competitors and use this to their advantage. To be able to detect competitor moves in the industry, Dulo (2009) proposes that firms monitor competitor actions aimed at achieving sales, growing market share, mergers, acquisitions, strategic alliances or collaborative partnerships. This in itself can be quite a daunting task. Johnson, Scholes and Wittington (2009) propose the use of Game Theory in this case, thereby enabling the strategist to anticipate the reaction of competitors to strategies that the firm plans to execute.

To be successful, a company must do a better job than its competitors of satisfying target consumers. This is what competitive advantage is about.
therefore is about winning your target customers – and retaining them. It arise by knowing your competition and anticipating what they’re going to do by developing a competitive strategy (Johnson and Scholes, 2014).

2.4 Government Regulation on Micro Finance Institutions

The Microfinance sector in Kenya is regulated by the Central Bank of Kenya, through the Microfinance Act which was enacted by the Parliament of Kenya on December 30, 2006. The Act applies mainly to deposit-taking institutions, although some parts of the Act may be declared applicable to non-deposit taking institutions. The Central Bank of Kenya is mandated with the authority to formulate policies and measures to address the challenges faced by MFIs, top priority being those based in the rural areas. There’s also partnership with the Ministry of finance to create a database of registered MFI’s through the microfinance act. The database will facilitate an efficient regulatory frame work in monitoring of their processes (Omino, 2008).

According to Omino (2008), over 100 organisations in Kenya, including about 50 NGOs, practice some form of microfinance business. About 20 of the NGOs practice pure microfinance activities, while the rest practice microfinance alongside other social welfare activities. Major players in the sector include: Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust), Rafiki DTM. These MFIs are members of the AMFI-K and membership includes MFIs that are non-regulated credit only, financial wholesalers, insurance companies (micro-insurance providers) and capacity providers. (AMFI-K, 2014) The Kenya Post Office Savings Bank (KPSOB) is also a major player in the sector but only to the extent of providing savings and money transfer facilities. According to Dondo, (2008), the microfinance sector in Kenya comprises of organisations which can be categorised into three sub-systems: the informal system, the formal subsidized system and the formal non-subsidized system.
2.4.2 The Informal System

The informal systems are financial arrangements between relatives and friends, traditional money lenders, Accumulating Savings and Credit Associations (ASCAs) and Rotating Savings and Credit Associations (ROSCAs) (Dondo, 2008). Credit from friends and relatives constitute an important source of start-up capital for many micro enterprises in urban areas. Informal financial arrangements are deeply rooted in the cultures of many ethnic communities. The popularity of these informal arrangements has been due to geographic proximity between lenders and borrowers, friendlier credit terms, and fewer requirements. Repayment arrangements tend to be open-ended and are based on reciprocity (Dondo, 2008).

In Kenya, informal groups or ROSCAs are generally referred to as *chamas*. There are thousands of *chamas* and they typically allow their members to save using a ‘merry-go-round’ system and can also offer a variety of other financial services including loans and investments. ROSCAs and ASCAs provide credit to those who would otherwise be ineligible to borrow from formal sources. They also mobilise savings, serve as a social function, and provide a form of insurance.

Ismail, Immink, Mazar and Guy (2013) in their study of successful community-based food and nutrition programmes, show that various Kenyan communities also have informal women’s groups that are a key vehicle for pooling of funds. The Akamba culture for instance, requires that every woman, of any age, religion, or social class be a member of a group with at least 10 to 15 others. These groups are known as *Mwethya Groups*. These groups are exclusively for women to help each other in the social and economic problems faced by their families. Generally, groups meet once every month or two months and contribute money at each meeting, to be given to the needy members or saved for hard times (Ismail, *et al.*, 2013). These *Mwethya* groups are well organised groups that are registered with the Ministry of Culture and Social Services. According to Nzioka (2010), a Drylands Research associate, these groups are also used for farm activities such as bush-clearing, cultivation and terracing. FinAccess (2010) shows that 38.8% of Kenyans belong to only one informal group, and membership is higher in rural areas than in urban areas.
2.4.2 The formal subsidized system

According to Dondo (2008), the formal subsidized system comprises of institutions that provide financial services and receive subsidies. The main actors are Microfinance NGOs with special credit programs for SMEs who benefit from foreign aid agencies (Dondo, 2008). The Microfinance organisations range from small charitable organisations operating in a limited geographical area to large institutions in several regions of the country. Some examples are Plan International’s partnership with Business Initiatives and Management Assistance Services (BIMAs) and World Vision Kenya’s Kenya Agency for Development of Enterprise and Technology (KADET).

There are also government agencies that have been developed to offer financial support for micro-enterprises in order to economically empower Kenyan communities that have limited or no access to credit facilities. The principle government agencies are: (i) Industrial and Commercial Development Corporation (ICDC), (ii) Kenya Industrial Estates (KIE), (iii) District Joint Loan Boards, (iv) Kenya Tourist Development Corporation (KTDC), (v) Youth Enterprise Development Fund (YEDF), and (vi) the Women Enterprise Development Fund, (Dupas and Robinson, 2009).

2.4.3 The Formal, Non-Subsidized System

Dondo (2008) suggests this as the final sub-system. The formal non-subsidized institutions include commercial banks, non-bank financial institutions, and Savings and Credit Co-operative Societies (SACCOs). Those institutions that provide microfinance services include Equity Bank, Family Bank, Faulu Kenya, K-Rep Bank and the Co-operative Bank of Kenya.

According to FinAccess (2009), 14.2% of Kenyans were banked with a bank licensed under the Banking Act, which represents 2.5 million users aged over 18 years. Another 5.6% of Kenyans were banked with Postbank (1 million users), and approximately 8.8 million adults used informal providers (ASCAs or ROSCAs), which represented 50.6% of the population. The government regulates the institutions within the financial sector with the aim of protecting customers. The regulatory framework for the financial sector in Kenya consists
of various independent regulatory bodies, each charged with the supervision of their various sub-sectors. Their general enforcement powers consist of requiring information to be provided, assessing and ensuring the integrity and honesty of owners and managers of regulated entities, inspection of operations, intervention in operations of regulated entities including removal of managers, revocation of licenses and sanctioning of entities and individuals (Mutuku, 2008).

The Central Bank of Kenya (CBK) is the overseer and the regulator of this sector. Banks, non-banking finance institutions, microfinance institutions, mortgage companies, Forex bureaus, credit reference bureaus and building societies are supervised by the CBK. Established in 1966 through the CBK Act, CBK has two principle objectives: firstly, price stability – to formulate and implement monetary policy in order to achieve stability of prices, that is, low inflation and to sustain the value of the Kenya Shilling against other currencies. Secondly, CBK has the objective of fostering the liquidity, solvency, and proper functioning of a stable, market-based financial system. Central Bank of Kenya’s secondary objectives are to issue currency notes and coins, hold and manage foreign exchange reserves and act as a banker and advisor to the Government. The CBK also has a supervisory role where it oversees the entire banking sector through the Bank Supervision Department (Central Bank of Kenya, 2010).

Kenya also has an active and growing capital market that is regulated by the Capital Markets Authority (CMA). The CMA was established through an Act of Parliament – Capital Markets Authority Act 1989 (Cap 485A, Laws of Kenya). The CMA has the principal objectives of: regulating the Kenyan Securities Market, developing all aspects of the capital markets, and protecting investors’ interests. In order to regulate and supervise the establishment of retirement benefit schemes, the Retirement Benefits Authority was established through an Act of Parliament – Retirement Benefits Authority Act, 1997. Its key objectives are to regulate and supervise the establishment and management of retirement benefits schemes, to protect the interest of members and sponsors of retirement benefits schemes and to promote the development of the retirement benefits industry (RBA, 2009).
As part of the public reforms undertaken by the Government of Kenya to increase efficiency and effectiveness of financial service delivery, the Insurance Regulatory Authority (IRA) was launched on 30th April 2008 (Anyanzwa and Adero, 2008). The IRA was established through an Act of Parliament – Insurance (Amendment) Act 2006 and its mandate is to regulate, supervise and develop the insurance industry in Kenya. The IRA is charged with administering the Insurance Act and advising the government on policy matters concerning Insurance. This authority has the duty of protecting the interests of policy holders, and ensuring that insurance companies adhere to the capital adequacy and solvency requirements set by the government. To encourage savings, the Government of Kenya incorporated the Kenya Post Office Savings Bank (KPOSB) in 1978 under the KPOSB Act (Cap 493B) to offer savings and payment services. This is in line with the microfinance act of providing financial services to the poor and unbankable (KPOSB, 2008).

2.4.4 The psychological microfinance theory.

The psychological element of the microfinance theory known as social consciousness driven capitalism has been advanced by the most passionate promoter of micro finance (Lindvert, 2006). His theory discusses that a species of profit-making private venture that care about the well-being of its customers can be conceived. In other words, it is possible to advance capitalist enterprises that maximize reserved profits subject to the fair interests of their customers.

The rationale of the theory is direct. Although altruism is not totally vague, capitalism is founded mainly on the foundation that human beings are selfish by nature. (Elahi, 2002) Accordingly, individuals interested in businesses are obviously motivated by the principle of profit-maximization, with little concern for the interests of their clients. This premise is too restricted to be a general model for capitalism, however, because it excludes individuals who are worried about the welfare of their fellow human beings. A more generalized principle would undertake that an entrepreneur maximizes a bundle consisting of financial return or profit and social return. This notion creates three groups of entrepreneurs. The first group comprises of traditional capitalists who mainly maximize financial returns or profits.
The second group comprises of philanthropic organizations (like traditional microcredit NGOs) and public credit agencies that mainly maximize communal returns. The third group comprises of entrepreneurs who pool both rates in making their investment decisions under the supplementary constraint that financial return cannot be negative. This group includes the microfinance enterprisers who are to be preserved as socially concerned people and microfinance, which is to be treated as a communal consciousness-driven capitalistic enterprise. The government plays a regulatory role over the microfinance industry through the CBK (Elahi, 2002).

2.5 Microfinance Sustainability

In the microfinance sector sustainability plays a crucial role in the development sector of the country. Organizational, managerial and financial aspects constitute a large part of sustainability but financial sustainability of MFIs has brought more attention in the mainstream analysis (Thapa, 2007). There have been diverse definitions of financial sustainability by various authors. Rosengard (2011) stated that putting the interest of customers first at prices that cover the smooth running of the organization and also providing affordable financial services leads to the realization of better income. Financial sustainability among MFIs has been found to be influenced by several factors that include: financial structure, depth and breadth of outreach, and efficiency (Kinde, 2012)

2.5.1 Financial Sustainability

Achieving financial sustainability is vital for MFIs since it facilitates self-sustaining programs independent of subsidies that enable them to get to more people permanently (Dunford, 2013). Financial sustainability is also said to be a pre-requisite of attracting commercial funding and thus achieving greater outreach and Ganka (2010) argued that it was better not to have MFIs than having unsustainable ones. Meyer (2012) stated that operational self-sufficiency and financial self-sufficiency are aspects that can be used to measure MFIs productivity. When the operating income is adequate enough to shield operational costs like loan losses, supplies, salaries and administrative expenses is referred to as operational self-sufficiency.
Financial sustainability is playing a crucial part in the sustainability of MFIs. International foundations and donors have recognized that efficiently run MFIs can cover a large portion of their costs, and demand an increasing level of self-sufficiency from them (Thapa et al., 2012). According to Schreiner and Woller (2012) profitability among MFIs is an equivalent of financial sustainability. Lack of sustainability is brought about by late payment from customers and lack of funding from donor bodies Meyer (2012). Meyer also stated that lack of payment of funds has led to increased lending of money by MFIs from international donor bodies.  

2.5.2 Operational Sustainability

There are different views about the link between operational sustainability and sustainability of MFIs. Meyer (2012) complements about financial sustainability and Outreach. Cost reduction enables MFIs to enjoy economies of scale thus becoming financially sustainable. On the contrary, Hulmes and Mosely (2006) argued that there is inverse connection between operational sustainability and financial sustainability. They stated that greater geographical coverage leads to higher transaction costs and hence making MFIs unsustainable.  

Kinde (2012) outlined a number of types of operational sustainability that included: depth of geographical coverage, cost per borrower, breadth of geographical coverage, capital/financial structure and employee productivity. The outreach of MFIs to rural areas determines how well the people who are marginalized will be able to access financial services. According to Kinde (2012) breadth of geographical affects financial sustainability due to the fact that increasing number of borrowers will increase the volumes of sell, and increasing volume of sell is one means to maximize profitability, and then financial sustainability. The clients social-economic is determined by the average loan size which is indicated by the depth of geographical coverage. The amount of funding offered to clients is determined by how well they payback their loans (Woller, 2010). The lesser the loan size, the more poor clients will be touched by microfinance.
The financial well being of the client for example the asset base, determines the loan size (Ganka, 2010). The effectiveness of MFIs in cost reduction given the number of customers they are serving improves the financial sustainability (Kinde, 2012). Productivity is measured through a mix of geographical coverage and efficiency. The measurement is usually done in terms of borrowers per customer by dividing active borrowers by the number of loan officers (CGAP, 2013). Microfinance operational efficiency is determined by the larger the amount of loan and how well it’s paid back (Kinde, 2012). When MFIs are able to cover all its present costs and the costs incurred in growth, if it expands operations it’s defined as financial sustainability. It would mean that the MFI is able to gather its operating costs, its financial costs adjusted for inflation and costs incurred in growth.

Financial sustainability involves Operational Self-sufficiency (OSS) and Financial Self Sufficiency (FSS) where the previous shows ability of institution to cover costs of operations through internally generated income. An OSS of 100% means the organization can cover its operational cost contentedly and if it’s less it means it is not able to cover its operational cost from its internally generated income. And the latter showing whether revenue earned is enough to cover all operating, financial and loan expenses as well as to uphold the value of equity. An FSS of 100% and above means the organization is able to cover all its cost and there is additional and if it’s less than 100% then it means it can’t meet its requirement sufficiently.

Microfinance income and expenses are the major determinants of MFIs sustainability as identified by Nyamsogo et al (2010). They further said that, microfinance income which includes the interest rates, the loan amount, the repayment rates and other incomes are the key sources of income for MFIs while expenses would include operational costs like transaction costs and loan losses provision (Shankar, 2007). A function of a number of groups that an MFI serves and field workers compensated is defined as transaction costs. The transaction costs are affected by the cost per transaction and the amount of transactions. Administrative cost is one more class of expenses incurred by MFIs. These are expenses incurred in managing the organization. The expenses include staff salary, office running expenses, staff visits expenses, costs of running client training, transportation expenses, and
costs incurred in setting-up and running a branch or collection centre like salaries, rent, and electricity among others (Nyamsogoro et al., 2010).

2.5.3 The Classic Microfinance Theory of Change

According to Greely (2012), the classic microfinance theory of change grasps that a poor person goes to a microfinance provider and takes a loan (or saves the same amount) to begin or expand a microenterprise which produces enough net revenue to repay the loan with major interest and still have adequate profit to increase personal or household income enough to raise the person’s standard of living. To make this theory true one must take a loan from (or save with) a microfinance institution, put in the money in a viable business and manage the business to yield major return on the investment. The return on investment from the business enables quicker loan repayment from the individual leading to financial and operational sustainability of MFIs.

2.5 Chapter Summary

The chapter reviewed literature by various authors on the specific research objectives. The literature covered the effects of management information systems on sustainability of micro finance institutions in Kenya, effect of competition on sustainability of micro finance institutions in Kenya, effects of government regulation on sustainability of micro finance institutions in Kenya, sustainability of microfinance institutions and the chapter summary. The resulting chapter discuses on the research methodology, it focuses on the target population; describes the data collection instruments and methods used. It gives details of the research procedures and the data presentation method that will be used.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter illustrates a detailed discussion of the research methodology that was used in the study. It portrays the research design, the population of the study, sample and sampling techniques, data collection methods as well as data analysis and data demonstration methods that were used in the research study.

3.2 Research Design

A research design constitutes a blueprint for the collection, measurement and analysis of data, it aids in the allocation of limited resources by making crucial choices in terms of assessing whether the research included experiments, interviews, observations, analysis of records, simulations or a combinations of any of these. A research design goes on to explain the methods of data collection, the reason behind choosing either a small sample or a large sample and explains whether the analysis was primarily quantitative or qualitative (Cooper & Schindler, 2009).

Descriptive research study was used to undertake what was a structured formal study which clearly states investigative questions which seek to find out who, what, where, when and how much (Cooper & Schindler, 2009). Through the descriptive research, the researcher sought to investigate how management information systems, competition and government regulation affects sustainability of microfinance institutions in Kenya. A report of the way things are, efforts to describe the way things and attempts to describe such things as possible behavior, attitudes, values and characteristics is what a descriptive study is based on (Mugenda & Mugenda, 2008).

3.3 Population and Sampling Design

3.3.1 Population

Ngechu (2008) described a study population as a separate or specified set of data, cluster of things, family units, organizations, facilities, elements or events which are being
studied. The research being studied should fit into a certain target population in order for the research to be true and should also be standardized. Keya (2009) states that individuals, data and elements should fit a research specification. The population can be divided into sets, population or strata and which are mutually exclusive.

Mugenda and Mugenda (2008), depicts that in order for the researcher to provide conclusions for the study the target of the population should have some elements of visual characteristics. The sample population of this study comprised of microfinance institutions in Kenya that had their headquarters based in Nairobi. Therefore, the target population was drawn up from 31 microfinance institutions based in Nairobi and its environs.

3.3.2 Sampling Design and Sample Size

3.3.2.1 Sampling Frame

The Sampling frame is an neutral list of the populace from which the researcher can make an educative choice (Denscombe, 1998). A sampling frame is a framework from which a list of features is drawn up (Saunders, Lewis & Thornhill, 2010). The sampling frame was obtained from a list of MFIs in Nairobi County from the Association of Micro Finance Institutions in Kenya (AMFI-K, 2014)

3.3.2.2 Sampling Technique

The study being a census survey means that data was collected from selected MFIs in Nairobi County to represent the whole of Kenya. Purposive Sampling was used to select 3 senior managers from each MFI thus a sample of 93 respondents were issued with the questionnaire. The sample size for the study was made up of 93 respondents, who were served with the questionnaire

3.3.2.3 Sample Size

The total number of respondents in this study was 93 sampled from 31 MFIs out of a list of 44 MFIs registered by AMFI-K. The formula used is shown below
Thus

\[ n = \frac{N}{1 + N(e)^2} \]

\[ 30.5 = \frac{44}{1 + 44(0.1)^2} \]

3.4 Data Collection Method

Data was collected using the primary technique for this study. Data was collected using a survey questionnaire for respondents from various MFIs in Nairobi County. This was developed by the researcher on the basis of research questions. The specific objectives were structured to be answered in the questionnaire. The survey was conducted using a structured questionnaire, which was divided into four major sections. The questionnaire was made simple and easy for the respondents to answer.

The researcher administered the questionnaire individually to all respondents of the study. The researcher took measures to ensure all questionnaires issued to the respondents were received and achieve the objective by maintaining a register of questionnaires. A deliver and pick later method of administration of questionnaires was used in this study.

3.5 Research Procedures

The questionnaires were randomly distributed to a selected number of respondents prior to the actual research in order to detect for flaws in the questionnaire and make the necessary changes. According to Cooper and Schindler (2009), a pilot test provides the alternative data for selection for a probability sample; it also detects the defects in design and administration. The questionnaires were handed out for testing prior to the real test the respondents who were selected randomly were issued with the questionnaires. The results from the pre-testing enabled the researcher to detect flaws in the questionnaire and perfect it for efficiency. Three trained research assistants were recruited to administer the refined questionnaire and also help in data coding and entry.

3.6 Data Analysis Methods

Quantitative analysis is the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those
observations reflect. The questionnaires were each allocated a number distinct to their various features; this was to ensure that the data was in line to the standards of the research. The data sampled was verified for correctness and completeness.

The coded data was analyzed using quantitative techniques. Quantitative techniques used descriptive statistics which included mean, frequency, percentages and standard deviations, while qualitative techniques used content analysis. The data was also analyzed using correlation and regression analysis to ensure conclusions and recommendations were accurate. The method used to analyze the data was using a statistical computer program known as SPSS. Tables, charts and figures were used to display the data.

3.7 Chapter Summary

Chapter three has mainly described the research design and the methodology which was applied in the study to investigate how management information systems, competition, and government regulation affect sustainability of micro finance institutions in Kenya. The research took the survey approach which was conducted using a structured questionnaire. The sample was selected through a convenience non-probability sampling method. The analysis of the data was done using a statistical computer program. The following chapter highlights the results and findings; this information was gathered after the data was collected and analyzed. Chapter five discusses the conclusions and gives recommendations based on the findings of the research on how management information systems, competition and government regulations affect the sustainability of microfinance institutions in Kenya.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents findings and analysis based on the objectives of the study. Both descriptive and inferential statistics have been used to discuss the findings of the study. The respondents of the study from the targeted population were 93 from which 84 respondents filled in and returned the questionnaire making a response rate of 90.3 percent. The level of response was conclusive for making decisions and deemed as satisfactory to make recommendations for the study.

4.2 Background Information

4.2.1 Designation

![Figure 4.1: Respondent’s designation](image)

The study requested the respondent to indicate their job designation, from the findings the study found that most of the respondents as shown by 39.3 percent indicated that they were middle level managers, 32.1 percent of the respondent indicated that they were operational managers, whereas 28.6 percent of the respondent indicated that they were senior managers, this implies that different personnel were equitably engaged in this study.
4.2.2 Level of education

Figure 4.2: Level of education

On level of education the study revealed that most of the respondents as shown by 46 percent held university degrees, 35 percent of the respondents held diploma certificates whereas 19 percent of the respondents held post graduate degrees. This implies that respondents were in a position to respond to the research question with ease.

4.2.3 Period of service in organization

Figure 4.3: Period of service in organization

The respondents were requested to indicate the number of years they had served in the organization. From the research findings, most of the respondents as shown by 45 percent indicated to have served in the organization for a period of 5 to 10 years, 32 percent of the respondents indicated to have served more than 10 years, 15 percent indicated to have served in the organization for a period of 3 to 5 years, whereas 8 percent the respondents indicated to have served the organization for a period of 1 to 3 years. This implies that most of the
respondents worked for a considerable period of time and therefore they were in a position to give credible information relating to this study.

4.3 Management Information Systems

4.3.1 Descriptive Analysis

Table 4.1: Extent to which management information system affect the sustainability of micro finance institutions in Kenya

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great extent</td>
<td>29</td>
<td>34.5</td>
</tr>
<tr>
<td>Great extent</td>
<td>42</td>
<td>50.0</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>13</td>
<td>15.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>84</td>
<td>100</td>
</tr>
</tbody>
</table>

The study sought to establish the extent to which management information system affect the sustainability of micro finance institutions in Kenya. From the research findings, majority of the respondents as shown by 50 percent were of the opinion that management information system affect the sustainability of micro finance institutions in Kenya to a great extent, 34.5 percent of the respondents indicated to a very great extent whereas 15.5 percent of the respondents indicated to a moderate extent. This implies that management information system affects the sustainability of micro finance institutions in Kenya to a great extent.

Table 4.2: Effects of management information systems on sustainability of micro finance institutions in Kenya

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information systems improves the work of our field</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>59</td>
<td>23</td>
<td>4.24</td>
<td>0.30</td>
</tr>
<tr>
<td>staff, enabling them to better monitor their portfolios</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>46</td>
<td>35</td>
<td>4.32</td>
<td>0.26</td>
</tr>
</tbody>
</table>
better services to our clients
Quality information systems enable managers to monitor their areas of responsibilities effectively
Quality information systems enables our senior management to better orchestrate the work of the entire organisation and make well informed operational and strategic decisions

The study sought to establish the level at which respondents agreed with the statements relating to effects of management information systems on sustainability of microfinance institutions in Kenya. From the research findings, majority of the respondents agreed that information systems enables provision of better services to their clients as shown by a mean score of 4.32, information systems improves the work of their field staff, enabling them to better monitor their portfolios as shown by a mean score of 4.24, quality information systems enables their senior management to better orchestrate the work of the entire organisation and make well informed operational and strategic decisions as shown by a mean score of 4.20, and that quality information systems enable managers to monitor their areas of responsibilities effectively as shown by a mean score of 4.19.

**Table 4.3: Statements Relating To MFI Self-Sufficiency and Sustainability**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial self-sufficiency is a necessary condition for our institutional sustainability</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>54</td>
<td>22</td>
<td>4.10</td>
<td>0.27</td>
</tr>
<tr>
<td>Our organisation can achieve sustainability without achieving self-sufficiency</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>59</td>
<td>19</td>
<td>4.14</td>
<td>0.30</td>
</tr>
<tr>
<td>Our microfinance information system</td>
<td>1</td>
<td>0</td>
<td>3</td>
<td>56</td>
<td>24</td>
<td>4.21</td>
<td>0.29</td>
</tr>
</tbody>
</table>
programmes are sustainable at every level of clientele.

The study sought to establish the level at which respondents agreed with the statements relating to MFI self-sufficiency and sustainability the microfinance. From the research findings, majority of the respondents agreed that information system programmes are sustainable at every level of clientele as shown by a mean score of 4.19, that the organisation can achieve sustainability without achieving self-sufficiency as shown by a mean score of 4.19, and that financial self-sufficiency is a necessary condition for institutional sustainability as shown by a mean score of 4.10.

**Table 4.4: Statements relating to Management Information Systems and Sustainability of MFIs**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our organisation is making a significant dent in poverty alleviation and therefore needs to achieve massive scale in order to be profitable</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>58</td>
<td>18</td>
<td>4.07</td>
<td>0.29</td>
</tr>
</tbody>
</table>

The study sought to establish the level at which respondents agreed with the statements relating to effects of management information systems on sustainability of microfinance institutions in Kenya. From the research findings, majority of the respondents agreed that the organisation is making a significant dent in poverty alleviation and therefore needs to
achieve massive scale in order to be profitable as shown by a mean of 4.07 and that to ensure sustainability the price of the loan product should be sufficiently high to cover operating costs, cost of funds, loan loss provisions, inflation and profit margin.

4.3.2 Inferential Analysis

Table 4.5: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Sustainability of MFIs</th>
<th>Management Information Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability of MFIs</td>
<td>Pearson Correlation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
</tr>
<tr>
<td>Management Information Systems</td>
<td>Pearson Correlation</td>
<td>.715**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>.352</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

From the findings on correlation analysis the study found that there was strong positive relationship between sustainability of Micro Finance institution in Kenya and Management Information Systems as shown by correlation coefficient of 0.715.

4.3.3 Regression Analysis

Table 4.6: 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>.715a</td>
<td>.511</td>
<td>.507</td>
<td>2.01670</td>
</tr>
</tbody>
</table>

Predictors (constant): Effects of MIS, MFI self sufficiency and sustainability, MIS and sustainability of MFIs

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in table 4.6, the value of adjusted R squared was 0.507 an indication that there was variation of 50.7 percent on sustainability of micro finance institution due to management information system at 95 percent confidence interval. This shows that 50.7 percent changes in sustainability of micro finance institution could be accounted for by changes in management information system. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.715.
Table 4.7: 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>0.468</td>
<td>1</td>
<td>0.468</td>
<td>2.619</td>
<td>.015</td>
</tr>
<tr>
<td>Residual</td>
<td>9.922</td>
<td>82</td>
<td>0.121</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.39</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors (contsant): Effects of MIS, MFI self sufficiency and sustainability, MIS and sustainability of MFI

Table 4.8: Model Coefficients

<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>T</td>
<td>Sig.</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.569</td>
<td>.388</td>
<td>4.479</td>
<td>.021</td>
</tr>
<tr>
<td>Size</td>
<td>.266</td>
<td>.020</td>
<td>.276</td>
<td>5.230 .024</td>
</tr>
</tbody>
</table>

Dependent variable: Sustainability of MFI

From the ANOVA statistics in table 4.7, the study established the regression model had a significance level of 1.5 percent which is an indication that the data was ideal for making a conclusion on the population parameters, as the value of significance (p-value) was less than 5 percent. If the p value is less than 5 percent it means that the model has predictive power consequently we reject the null hypothesis. The calculated value was greater than the critical value (2.619>1.697) an indication that management information systems significantly influence sustainability of MFI in Kenya. The significance value was less than 0.05 indicating that the model was significant.

The established regression equation was:

\[ Y = 0.569 + 0.266 \times X_1 \]

From the above regression equation, it was revealed that holding management information system to a constant zero, sustainability of microfinance in Kenya would stand at 0.569, a unit increase in management information system would lead to increase in sustainability of micro finance institution by factors of 0.266.
4.4 Competition

4.4.1 Descriptive Statistics

Table 4.9: Extent to which competition affect the sustainability of micro finance institutions in Kenya

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great extent</td>
<td>31</td>
<td>36.9</td>
</tr>
<tr>
<td>Great extent</td>
<td>49</td>
<td>58.3</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>4</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The study sought to establish that extent to which competition affects the sustainability of micro finance institutions in Kenya. From the research findings, majority of the respondents as shown by 58.3 percent were of the opinion that competition affect the sustainability of micro finance institutions in Kenya to a great extent, 36.9 percent of the respondents indicated to a very great extent whereas 4.8 percent of the respondents indicated to a moderate extent, this implies that competition affect the sustainability of micro finance institutions in Kenya to a great extent.

Table 10: Statements relating to effects of competition on sustainability of micro finance institutions in Kenya

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our organization needs to find out what our competitors are doing and predict what they might do in the future</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>49</td>
<td>32</td>
<td>4.32</td>
<td>0.27</td>
</tr>
</tbody>
</table>
Since MFI’s have competitors, our organization must consider how this competition can affect the organization and strategize on how to counter it. Understanding the competition will enable our organization to identify segments of our customer base that might be at risk and to formulate a response.

The study sought to establish the level at which respondents agreed with statements relating to effects of competition on sustainability of micro finance institutions in Kenya. From the research findings, majority of the respondents agreed that the organization need to find out what their competitors are doing and predict what they might do in the future as shown by a mean score of 4.32. Since MFI’s have competitors, organizations must consider how this competition can affect the organization and strategize on how to counter it as shown by a mean score of 4.19. Understanding the competition will enable organizations to identify segments of their customer base that might be at risk and to formulate a response as shown by a mean score of 4.07.

Table 4.11: Statements Relating To Forms of Competition

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extreme forms of competition present a hypothetical market structure for our organization</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>44</td>
<td>34</td>
<td>4.27</td>
<td>0.25</td>
</tr>
<tr>
<td>Competition can act as a core of the success or failure of organization</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>54</td>
<td>24</td>
<td>4.13</td>
<td>0.27</td>
</tr>
<tr>
<td>Our competitor actions should be aimed at achieving sales, growing market share, mergers, acquisitions, strategic alliances or collaborative partnerships</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>52</td>
<td>25</td>
<td>4.18</td>
<td>0.26</td>
</tr>
</tbody>
</table>
The study sought to establish the level at which respondents agreed with the statements relating to effects of competition forms on sustainability of micro finance institutions in Kenya. From the research findings, majority of the respondents agreed that extreme forms of competition present a hypothetical market structure for organizations as shown by a mean score of 4.27. The company’s competitor’s actions should be aimed at achieving sales, growing market share, mergers, acquisitions, strategic alliances or collaborative partnerships as shown by a mean score of 4.18. Competition can act as a core of the success or failure of organization as shown by a mean score of 4.13.

Table 4.12: Statements relating to Competitive Strategies adopted by MFIs

<table>
<thead>
<tr>
<th>Competitive Strategies adopted by MFIs</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>In order to achieve greater performance our organization needs to identify growth segments</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>51</td>
<td>30</td>
<td>4.27</td>
<td>0.27</td>
</tr>
<tr>
<td>Our organization needs to work at achieving operational efficiency and continuously enhance the quality of its products and services</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>48</td>
<td>33</td>
<td>4.35</td>
<td>0.27</td>
</tr>
<tr>
<td>Use of SWOT analysis as a key component during strategy formulation and implementation is paramount in our organization.</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>44</td>
<td>36</td>
<td>4.37</td>
<td>0.25</td>
</tr>
<tr>
<td>To be successful, our organization must do a better job than its competitors on satisfying target customers.</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>47</td>
<td>31</td>
<td>4.27</td>
<td>0.25</td>
</tr>
</tbody>
</table>

On respondent’s level of agreement with the statements relating to competitive strategies adopted by MFIs, majority of the respondents agreed that use of SWOT analysis as a key component during strategy formulation and implementation is paramount in the organization as shown by a mean score of 4.37. The organization needs to work at achieving operational efficiency and continuously enhance the quality of its products and services as
shown by a mean score of 4.35. In order to achieve greater performance the organization needs to identify growth segments and that to be successful organizations must do a better job than its competitors on satisfying target customers as shown by a mean score of 4.27 in each case.

### 4.4.2 Inferential Analysis

#### Table 4.13: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Sustainability of MFIs</th>
<th>Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability Of</strong></td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Mfis</td>
<td>Sig. (2-Tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>Pearson Correlation</td>
<td>.754**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The study conducted a Pearson product moment correlation to determine the strength of relationship between competition and sustainability of Micro Finance institution in Kenya. The study found that there was strong positive significant relationship as shown by correlation coefficient of 0.754.

#### 4.4.3 Regression Analysis

#### Table 4.14: 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>.754</td>
<td>.569</td>
<td>.541</td>
<td>.88133</td>
</tr>
</tbody>
</table>

Predictors (constant): Effects of competition, Forms of competition, Competitive strategies adopted by MFIs

Dependent variable: Sustainability of MFIs

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in table 4.14, the value of adjusted R squared was 0.541 an indication that there was variation of 54.1 percent on sustainability of microfinance institution due to changes in competition at 95 percent confidence interval . This shows that 54.1 percent changes in sustainability of microfinance institution could be accounted for by changes in competition. R is the
correlation coefficient which shows the relationship between the study variables. From the findings shown in the table 4.14, there was a strong positive relationship between the study variables as shown by 0.754.

**Table 4.15: 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>0.435</td>
<td>1</td>
<td>0.435</td>
<td>2.671</td>
<td>.001</td>
</tr>
<tr>
<td>Residual</td>
<td>13.366</td>
<td>82</td>
<td>0.163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13.801</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors (constant): Effects of competition, Forms of competition, Competitive strategies adopted by MFIs

Dependent variable: Sustainability of MFIs

From the ANOVA statistics in table 4.15, the study established the regression model had a significance level of 0.1% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5% which means that the value has a predictive power. The calculated value was greater than the critical value (2.671>1.697) an indication that competition significantly influence the sustainability of microfinance institution in Kenya. The significance value was less than 0.05 indicating that the model was significant.

**Table 4.16: Regression Model Coefficients**

<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>1 (Constant)</td>
<td>.639</td>
<td>.396</td>
<td>3.133</td>
<td>.052</td>
</tr>
<tr>
<td>Competition</td>
<td>.400</td>
<td>.884</td>
<td>.823</td>
<td>4.792</td>
</tr>
</tbody>
</table>

Dependent variable; Sustainability of MFIs

The established regression equation was

\[ Y = 0.639 + 0.400 \times X_1 \]

From the above regression equation it was revealed that competition to a constant zero, sustainability of microfinance institutions would stand at 0.639, a unit increase in competition would lead to increase in sustainability of microfinance institution by factors of 0.400.
4.5 Government Regulation

4.5.2 Descriptive Statistics

Table 4.17: Extent to which government regulations affect the sustainability of micro finance institutions in Kenya

<table>
<thead>
<tr>
<th>Extent</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Great extent</td>
<td>32</td>
<td>38.1</td>
</tr>
<tr>
<td>Great extent</td>
<td>40</td>
<td>47.6</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>12</td>
<td>14.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The study sought to establish that extent to which government regulations affect the sustainability of micro finance institutions in Kenya. From the research findings, majority of the respondents as shown by 47.6 percent were of the opinion that government regulations affect the sustainability of micro finance institutions in Kenya to a great extent, 38.1 percent of the respondents indicated to a very great extent whereas 14.3 percent of the respondents indicated to a moderate extent. This implies that government regulations affect the sustainability of micro finance institutions in Kenya to a great extent.

Table 4.18: Statements relating to informal system

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal financial arrangements are deeply</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>47</td>
<td>29</td>
<td>4.18</td>
<td>0.24</td>
</tr>
<tr>
<td>rooted in the cultures of many ethnic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>communities in Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal women’s groups that are a key</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>49</td>
<td>26</td>
<td>4.14</td>
<td>0.25</td>
</tr>
<tr>
<td>vehicle for pooling of funds in our</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Informal financial groups are helping in increasing the customer base of our organisation

The study sought to establish the extent to which respondents agreed with statements relating informal systems. From the research findings, majority of the respondents agreed that informal financial groups are helping in increasing the customer base of the organisation as show by a mean score of 4.29. Informal financial arrangements are deeply rooted in the cultures of many ethnic communities in Kenya as shown by a mean score of 4.18. Informal women’s groups that are a key vehicle for pooling of funds in the organisation as shown by a mean score of 4.14.

Table 4.19: Statements relating to the formal subsidized system

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal subsidized system provide financial services and receive subsidies from the government</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>46</td>
<td>30</td>
<td>4.20</td>
<td>0.24</td>
</tr>
<tr>
<td>The formal subsidized system offer financial support for our organisation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>53</td>
<td>25</td>
<td>4.18</td>
<td>0.27</td>
</tr>
<tr>
<td>The formal subsidized system plays a vital role in empowering Kenyan communities that have limited or no access to credit facilities</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>49</td>
<td>29</td>
<td>4.25</td>
<td>0.26</td>
</tr>
</tbody>
</table>

The study sought to establish the extent to which respondents agreed with statements relating informal formal subsidized systems. From the research findings majority of the respondents agreed that the formal subsidized system plays a vital role in empowering
Kenyan communities that have limited or no access to credit facilities as shown by a mean score of 4.25. The formal subsidized systems provide financial services and receive subsidies from the government as shown by a mean score of 4.20. The formal subsidized system offer financial support for our organisation as shown by a mean score of 4.18.

Table 4.20: The Formal, Non-Subsidized System

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The government regulates the formal institutions within the financial sector with the aim of protecting customers</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>52</td>
<td>27</td>
<td>4.19</td>
<td>0.27</td>
</tr>
<tr>
<td>The regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies, each charged with the supervision of their various sub-sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.26</td>
<td>0.26</td>
</tr>
<tr>
<td>The formal non-subsidized institutions include commercial banks, non-bank financial institutions, and Savings and Credit Co-operative Societies</td>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>51</td>
<td>4.20</td>
<td>0.26</td>
</tr>
</tbody>
</table>

The study sought to establish the extent to which respondents agreed with statements relating to formal, non-subsidized system. From the research findings majority of the respondents agreed that the regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies, each charged with the supervision of their various sub-sectors as show by a mean score of 4.26. The formal non-subsidized institutions include commercial banks, non-bank financial institutions, and savings and credit co-operative societies as shown by a mean score of 4.20. The government regulates the formal institutions
within the financial sector with the aim of protecting customers as shown by a mean score of 4.19.

4.5.2 Inferential Analysis

Table 4.21: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Sustainability of MFIs</th>
<th>Government regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability Of Mfis</td>
<td>Pearson Correlation</td>
<td>Sig. (2-Tailed)</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>.520**</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>84</td>
<td>84</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

From the findings correlation analysis the study found that there was strong negative relationship between sustainability of microfinance institution in Kenya and government regulation as shown by correlation coefficient of -0.520.

4.5.3 Regression Analysis

Table 4.22: 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>.520a</td>
<td>.270</td>
<td>.259</td>
<td>.17823</td>
</tr>
</tbody>
</table>

Predictors (constant): Informal system, Formal subsidized system, The formal-non subsidized system

Dependent variable: Sustainability of MFIs

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.259 an indication that there was variation of 25.9 percent on sustainability of microfinance institution due to changes in government regulations at 95 percent confidence interval . This shows that 25.9 percent changes in sustainability of micro finance institutions could be accounted to changes in government regulation. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.520.
Table 4.23: ANOVA

<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>1 Regression</td>
<td>4.903</td>
<td>1</td>
<td>4.903</td>
<td>10.288</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>39.114</td>
<td>82</td>
<td>0.477</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>44.017</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors (constant): Informal system, Formal subsidized system, The formal-non subsidized system

Dependent variable: Sustainability of MFIs

From the ANOVA statistics in table 4.23, the study established the regression model had a significance level of 0 percent which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5 percent. The calculated value was greater than the critical value (10.288>1.697) an indication that competition significantly influence the sustainability of microfinance institution in Kenya. The significance value was less than 0.05 indicating that the model was significant.

Table 4.24: Coefficients

<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>1 (Constant)</td>
<td>1.232</td>
<td>.567</td>
<td></td>
<td>2.231</td>
</tr>
<tr>
<td>Government regulation</td>
<td>-.118</td>
<td>.077</td>
<td>-.164</td>
<td>-1.519</td>
</tr>
</tbody>
</table>

Dependent variable: Sustainability of MFIs

The established regression equation was

\[ Y = 1.232 - 0.118 X_1 \]

From the above regression model, holding government regulation to a constant zero, sustainability of microfinance institution would be 1.232, it established that a unit increase in government regulations would cause a decrease in sustainability of microfinance institution by a factor of 0.118.
4.6 Sustainability of MFIs

4.6.1 Descriptive Statistics

Table 4.25: Statements Relating To Financial Sustainability of MFIs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability plays an integral part in the continued provision of financial products in our organization</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>40</td>
<td>38</td>
<td>4.33</td>
<td>0.24</td>
</tr>
<tr>
<td>Our organization enjoys economies of scale and hence reduces costs which helps us to be financially sustainable</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>54</td>
<td>20</td>
<td>4.02</td>
<td>0.26</td>
</tr>
<tr>
<td>Achieving financial sustainability is critical for our organization since it facilitates self-sustaining programs</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>57</td>
<td>23</td>
<td>4.18</td>
<td>0.29</td>
</tr>
</tbody>
</table>

The study sought to determine the extent to which respondent agreed with statements relating to financial sustainability of MFIs. From the research findings, majority of the respondents agreed that financial sustainability plays an integral part in the continued provision of financial products in the organization as shown by a mean score of 4.33. Achieving financial sustainability is critical for the organization since it facilitates self-sustaining programs as shown by a mean score of 4.18. The organization enjoys economies of scale and hence reduces costs which help it to be financially sustainable as shown by a mean score of 4.02.
Table 4.26: Statement Relating To Operational Sustainability of MFIs

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving operational sustainability is critical for our organization since it facilitates customer satisfaction</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>40</td>
<td>41</td>
<td>4.43</td>
<td>0.26</td>
</tr>
<tr>
<td>Operational self-sufficiency is when the operating income is sufficient enough to cover our operational costs like salaries and other administrative costs</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>48</td>
<td>32</td>
<td>4.32</td>
<td>0.26</td>
</tr>
<tr>
<td>Operational efficiency leads to greater satisfaction of or customers</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>50</td>
<td>27</td>
<td>4.19</td>
<td>0.26</td>
</tr>
</tbody>
</table>

The study sought to reveal the extent to which respondent agreed with statements relating to operational Sustainability of MFIs. From the research findings majority of the respondents agreed that achieving operational sustainability is critical for the organization since it facilitates customer satisfaction as shown by a mean score of 4.43. Operational efficiency leads to greater satisfaction of customers as shown by a mean score of 4.19.

Table 4.27: Statement Relating To Sustainability and Growth MFIs

<table>
<thead>
<tr>
<th>Sustainability And Growth</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability can be achieved when staff satisfied as well</td>
<td>1</td>
<td>0</td>
<td>4</td>
<td>32</td>
<td>47</td>
<td>4.48</td>
<td>0.26</td>
</tr>
<tr>
<td>Sustainability is goes along with customer satisfaction</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>49</td>
<td>28</td>
<td>4.18</td>
<td>0.25</td>
</tr>
</tbody>
</table>

The study sought to establish the extent to which respondent agreed with statements relating to sustainability and growth of MFIs. From the research findings majority of the respondents agreed that sustainability can be achieved when staff are satisfied as well as shown by a mean score of 4.48 and that sustainability goes along with customer satisfaction as shown by a mean score of 4.18.
4.6.2 Inferential Analysis

In this section, the study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the study variables.

Table 4.28: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Sustainability</th>
<th>Management information systems</th>
<th>Competiton</th>
<th>Government regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management information systems</td>
<td>Pearson Correlation</td>
<td>.715</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.352</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>Pearson Correlation</td>
<td>.754**</td>
<td>.118</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.343</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>Government regulation</td>
<td>Pearson Correlation</td>
<td>-.520**</td>
<td>.432**</td>
<td>.586**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>84</td>
<td>84</td>
<td>84</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The study conducted a Pearson product moment correlation. From the findings, the study found that there was a positive correlation coefficient between sustainability of MFIs and competition as shown by correlation factor of 0.745. The study also found a positive correlation between sustainability of MFIs and management information system as shown by correlation coefficient of 0.715, association between sustainability of MFIs and government regulation was found to have negative relationship as shown by correlation coefficient of -0.520.
4.6.3 Regression Analysis

Table 4.29: 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>.898(^a)</td>
<td>.806</td>
<td>.789</td>
<td>.893</td>
</tr>
</tbody>
</table>

Predictors (Constant): Management Information Systems, Competition, Government Regulations
Dependent variable: Sustainability of MFIs

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in table 4.29, the value of adjusted R squared was 0.789 an indication that there was variation of 78.9 percent on sustainability of microfinance institution due to changes in management information system, competition and government regulation at 95 percent confidence interval. This shows that 78.9 percent changes in sustainability of microfinance institution could be accounted to changes in management information system, competition and government regulation. R is the correlation coefficient which shows the relationship between the study variables. From the findings, there was a strong positive relationship between the study variables as shown by 0.898.

Table 4.30: ANOVA\(^a\)

<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>1.539</td>
<td>3</td>
<td>0.513</td>
<td>2.386</td>
<td>.003(^b)</td>
</tr>
<tr>
<td>Residual</td>
<td>17.2</td>
<td>80</td>
<td>0.215</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18.739</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors (Constant): Management Information Systems, Competition, Government Regulations
Dependent variable: Sustainability of MFIs

From the ANOVA statistics in table 4.30, the study established the regression model had a significance level of 0 percent which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 0.3 percent which means that model has a predictive power. The calculated value was greater than the critical value (2.386>1.697) an indication that, management information systems, competition and government regulation, significantly influence the sustainability of microfinance institution in Kenya. The significance value was less than 0.05 indicating that the model was significant.
Table 4.31: Coefficients*

<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>1 (Constant)</td>
<td>1.350</td>
<td>1.635</td>
<td>.825</td>
<td>.419</td>
</tr>
<tr>
<td>MIS</td>
<td>.509</td>
<td>.311</td>
<td>.402</td>
<td>2.637</td>
</tr>
<tr>
<td>Competition</td>
<td>.426</td>
<td>.184</td>
<td>.431</td>
<td>2.318</td>
</tr>
<tr>
<td>Government regulation</td>
<td>-.179</td>
<td>.219</td>
<td>-.199</td>
<td>-3.815</td>
</tr>
</tbody>
</table>

Dependent variable: Sustainability of MFIs

From the data in the above table the established regression equation was

\[ Y = 1.350 + 0.509 X_1 + 0.426 X_2 - 0.179 X_3 \]

From the above regression equation it was revealed that holding, management information system, competition and government regulations to a constant zero, sustainability of microfinance institution would be at 1.350, a unit increase in management information system would lead to increase in the sustainability of microfinance institution by a factor of 0.509, unit increase in competition would lead to increase in sustainability of microfinance institution by factors of 0.426 and a unit increase in government regulation would lead to decrease in sustainability of microfinance institution by a factor of 0.179. All the variables were significant (p<0.05).

4.7 Chapter Summary

The chapter presented the results of the survey. The study found that management information systems, competition and government regulations affect the sustainability of micro finance institutions in Kenya to a great extent, the study also revealed that organization needs to find out what their competitors are doing and predict what they might do in the future and the study found that the government regulates the formal institutions within the financial sector with the aim of protecting customers. The next chapter discusses the major findings of the study, major conclusions drawn and areas for further research.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the explanation and illustration of the findings drawn up from the study. The chapter also presents the conclusions and recommendations of the study based on the specific research questions. The researcher had intended to examine the effects of management information systems on sustainability of micro finance institutions in Kenya, to determine the effect of competition on sustainability of micro finance institutions in Kenya and to examine the effects of government regulation on sustainability of micro finance institutions in Kenya.

5.2 Summary of the Study

The general objective of the study was to establish how management information systems, competition and government regulations affect sustainability of micro finance institutions in Kenya.

The study was guided by the following research questions

i. What are the effects of management information systems on sustainability of micro finance institutions in Kenya?

ii. What is the effect of competition on sustainability of micro finance institutions in Kenya?

iii. Does government regulation affect the sustainability of micro finance institutions in Kenya?

The research methodology used took the survey approach which was conducted using a structured questionnaire. The sampling frame was obtained from a list of MFIs in Nairobi County. The sample was selected through a convenience non-probability sampling method. The analysis of the data was done using a statistical computer program. Descriptive and inferential analysis was used to tabulate the results from the findings.
The study found out that majority of the MFIs was of the opinion that management information systems affects sustainability of MFIs to a great extent. Management information are essential applications which enable an institution to better organize its data for the purposes of decision making, efficiency and external reporting. Secondly, management information systems through fast delivery and efficiency enable provision of better services to clients. The study further found out that management information systems and structures contribute significantly to the sustainability of MFIs. It enables senior management to better monitor their portfolios as well as to make operational and strategic decisions.

The study also found out that majority of the MFIs was of the opinion that competition affects sustainability of MFIs to a great extent. Competition is a key tenet towards sustainability since MFIs need to find out what their competitors are doing and might do in future. Secondly, understanding of competition helps MFIs to identify segments of the customer base that might be at risk and to formulate a response. The study further found out that MFIs need to adopt competitive strategies that work toward achieving operational efficiency and continuously enhance satisfaction of customers.

The study also found out that majority of the MFIs was of the opinion that government regulations affects sustainability of MFIs to a great extent. The government regulates the financial sector including MFIs with the aim of protecting customers. The formal subsidized system which receives subsidies from the government plays a vital role in offering financial support to MFIs. The study further found out that the regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies, each charged with the supervision of their various subsectors.
5.3 Discussion

This section discusses the findings and results of the study in light of existing evidence and the theoretical framework in the literature review.

5.3.1 Management Information Systems

The study sought to establish how management information system affects the sustainability of microfinance institutions. The study found that management information systems in MFIs enable capable and motivated staff to be able to perform their tasks to their full potential. It improves the work of field staff enabling them to better monitor their portfolios and serve their clients while working with a growing number of customers. The study also found out that not only does MIS help staff but also managers at a supervisory level. It enables the supervisors to better monitor work under their responsibility, provide better guidance to staff and pinpoint areas that require their attention. These findings concur with the study findings by Ledgerwood (2009) identified three major goals for an information system. These are transaction processing, customer service and management information. In order for management to make any strategic decisions about products that they have, they would require information on the number of accounts they have, the value of the accounts, the daily turnover as percentage of the whole and so on. The importance of management information systems cannot be over emphasized. Systems must be designed to produce information that enables management to make informed strategic decisions (Ledgerwood, 2009)

The study also revealed that MIS programmes are sustainable at every level of clientele, which helps staff to track status of portfolios in a timely and accurate manner. The study further revealed that achieving financial self sufficiency through installation of proper information systems is critical for MFI sustainability. Management information systems ensure sustainability whereby the price of the loan product is priced sufficiently high to cover operating costs, cost of funds, loan loss provisions, inflation and profit margin. These
findings are in line with study findings by Ryhne (2011) demonstrated that there were several microfinance programmes that were found to be sustainable at every level of clientele, due to having a proper MIS proving that perhaps it’s possible to be self-sufficient and sustainable.

The study also revealed that management information systems affect the ability of MFI’s operation management related to internal and specifically to staff operations. The study further revealed that Management information system affects the speed of handling business, the ability of computerisation and the ability of asset and liability management. These findings concur with study findings by K’Aol and Ochanda (2013) information technology is one of the most important and unavoidable aspect off all medium to large organizations in the modern business world for their continued survival.

5.3.2 Competition

The study sought to establish how competition affects the sustainability of MFIs. The study found that competition acts as core success of MFIs, micro finance institutions are forced to find out what competitors are doing and predict what they might do in future. Inefficient MFIs and MFIs with poorly designed products or poor customer service are forced to adopt product and strategies of competitors or face bankruptcy. The study further revealed that understanding the competition enables MFIs to identify segments of their customer base that might be at risk and to formulate a response. These findings were found to be consistent with the findings of Bauer & Colgan (2011) that activities concerning the competitive environment and organizations must remember to consider existing or potential competition from foreign as well as local organizations. The study also revealed that MFIs in Kenya face a monopolistic type of competition. This is when there are many sellers of a product and each has a relatively small market share. The above findings concur with the findings by Prahalad & Hamel, (2010) that a good strategy can contribute to growth, profitability, market penetration, cost-reduction, cutting-edge differentiation of products and sustainable competitive advantage of business firms.
The study further revealed that extreme forms of competition present a hypothetical market structure for organizations the company’s competitor’s actions should be aimed at achieving sales, growing market share, mergers, acquisitions, strategic alliances or collaborative partnerships. Competition can act as a core of the success or failure of organization, use of SWOT analysis as a key component during strategy formulation and implementation is paramount in MFIs. Micro finance institutions need to work at achieving operational efficiency and continuously enhance the quality of products and services in order to achieve greater performance. The study also revealed that to be successful MFI’s must do a better job than competitors on satisfying target consumers. This is what competitive advantage is about. Competitive advantage therefore is about winning your target customers and retaining them. This is through coming up with a competitive strategy; in order for a business unit to come up with a competitive strategy it must first gain competitive edge from its rivals by securing the larger market share. The above findings concurs with the research findings by Hubka & Zaidi (2005) that governments can help market-based microfinance by eliminating unfair competition from public institution, undertaking overall regulatory reform and improving the overall business environment.

5.3.3 Government Regulation

The study sought to establish how government regulations affect the sustainability of MFIs. The study revealed that the government adjusts regulatory frame works to protect customers and all types of financial institutions including MFIS. The informal financial groups are helping in increasing the customer base of MFIs, and informal women’s groups that are a key vehicle for pooling of funds in MFIs. The formal subsidized system in which some MFIs lie plays a vital role in empowering Kenyan communities that have limited or no access to credit facilities. The formal subsidized system provides financial services and receives subsidies from the government and that the formal subsidized system offer financial support for MFI’s. The findings are in line with findings by Dondo, (2008), the microfinance sector in Kenya comprises of organisations which can be categorised into three sub-systems the informal subsystem, the formal subsidized system and the formal non-subsidized system.
The study also revealed that microfinance institutions range from small charitable organisations operating in a limited geographical area to large institutions in several regions of the country. The regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies each charged with the supervision of their various sub-sectors, the formal non-subsidized institutions include commercial banks, non-bank financial institutions, and savings and credit co-operative societies. The findings concur with the findings by Woodworth (2001) that governments must create a macroeconomic environment characterized by stable growth, low inflation, and fiscal discipline.

5.3.4 Sustainability of MFIs

The study sought to establish how sustainability affects MFIs. According to the study sustainability is the cornerstone for economic development in the microfinance sector through its provision of a framework for sustainable growth. This has been attributed by the increased demand for financing by people in the informal sector and those that have been excluded from the banking system. Sustainability with regard to the study constitutes of various key aspects that include. The income levels of the MFIs, the outreach to customers and operational efficiency. Findings from the study continue to show that there are several factors that have been found to influence the financial sustainability of MFIs. They include levels of profit reported by the MFIs, how customers are satisfied and the efficiency of the systems in the organization. These findings are in line with findings by Kereta, (2007) there are two kinds of financial sustainability measures that could be used in assessing MFIs performance, operational self-sufficiency and financial self-sufficiency. Operational sustainability is when the cost of running the organization is to cover the day to day running of the organization that include. Employee wages, operational supplies, losses received from loans and other costs. Financial sustainability is when MFIs market capitalization and asset base is greater than other players in the industry.

Findings from the study also show that the government provides MFIs with benefits such as economies of scale which help them to reduce losses associated with operations. They are sustainable in relation to sources of finances, generation of revenue and cost of
financing. According to the findings from the study, MFIs mainly source their finances from interest rates, loan amounts, and international donor organizations. The findings concur with the study findings by Nyamsogoro et al. (2010) identified microfinance income and expenses as the major determinants of MFI sustainability. They further said that, microfinance income includes the interest rates, the loan amount, the repayment rates and other incomes are the key sources for MFIs while expenses would include operational costs and loan losses provision.

5.4 Conclusions

This section presents the conclusions drawn from the discussion of findings and also from the discussions in the previous chapters on the basis of the effects of management information systems, competition, government regulation and sustainability of MFIs.

5.4.1 Management Information Systems

The study established the implementation and use of management information systems in innovative ways to increase the effectiveness and efficiency of MFI operations. Information technology is one of the most important and unavoidable aspect off all medium to large organizations in the modern business world for their continued survival. Thus the study concludes adoption of management information systems is fundamental towards the sustainability of micro finance institutions in Kenya.

5.4.2 Competition

The study established that increased competition among MFI lenders calls upon institutional innovation for information sharing on client indebtedness levels of declining repayment rates are to be avoided. This is necessary to allow proper assessment of risk under multiple loan-taking. The general equilibrium effect of deeper credit markets combined with information sharing through credit bureaus should thus allow transforming increasing competition among lenders into a gain in repayment performance and downward pressure on interest rates to the benefit of MFI clients. In addition to MFIs are keen on achieving sales
through product differentiation, ability to improve service provision, donor funding and profitability.

5.4.3 Government Regulation

The study draws a further conclusion that regulatory policy framework for microfinance institutions in Kenya clearly provide guidelines for suspending, canceling or revoking microfinance for legitimate operation in those cases where the institutions cannot perform up to acceptable standards. The guidelines clearly define performance and operating standards. This helps MFIs to strategize their operations in a manner that does not lead to poor financial performance.

5.5 Recommendations

5.5.1 Recommendations for Improvement

The section presents margins of the study and also recommendations for future studies which are resulting from debates from prior chapters. The section offers more understanding in relation to what requires to be done by microfinance institutions.

5.5.1.1 Management Information Systems

The study recommends that innovation and technology should be adopted by microfinance institutions to enable them to compete in an ever changing industry. This will enhance the speed of delivery of services to customers and hence ensure sustainability. It further recommends that MFIs capitalize in new information systems as well as invest in an integrated system to join its outlets in order to deliver operative and efficient services. Management information system has the potential to provide several benefits to the industry as a whole and to MFIs in particular, ranging from loan tracking to greater transparency and risk management.

5.5.1.2 Competition

There is need to promote an open and competitive financial environment within the MFI sector. This can be facilitated by having unjustified restrictions on entry, ownership or exit, resulting either from the rules to be applied or from enforcement practices. There is also
need for MFIs to offer a wide range of services, engaging highly skilled staff and intensive training.

5.5.1.3 Government Regulation

According to the study there was a negative relationship between government relations and sustainability of MFIs therefore the government needs to involve the private sector in formulating poverty reduction strategies and explicitly recognize its leading role in financial sector development including the microfinance industry. The active participation of the private sector should help to embed microfinance firmly within financial systems with private and non-governmental actors taking the lead.

5.5.1.4 Sustainability of MFIs

There is need for MFIs to embrace operational efficiencies since most MFIs have been operational in the medium term which has enabled them to learn from experiences. There is also need to ensure that there is a proper separation between the enforcement of prudential regulation and of the general competition rules. Central Bank of Kenya should take a long-term view when structuring regulatory framework to provide MFIs a clear view of the thresholds to attain on the path to institutional sustainability.

5.5.2 Recommendations for Further Research

This study recommends further studies on product development processes used by MFIs. This study will be useful explaining the MFI environment, the uniformity of products and the lack of diversity in the production sector. Furthermore the study will inform MFIs on products they can develop and market to customers. Secondly the study recommends further research on the effect of government regulations on MFI sustainability. The study should focus on the interest rate regulation and how the action of CBK on monetary policy affects the demand and sustainability of MFI products and services.
REFERENCES


CGAP. (2012). *Advancing financial inclusion to improve the lives of the poor*. Washington, D.C: CGAP.


APPENDICES

Appendix I : Letter Of Introduction

Kelvin Musyoka Nzomo

P.O. BOX 20006-00100

NAIROBI, KENYA

20th April 2015

Dear Respondent,

RE; GRADUATE RESEARCH PROJECT
As part of the fulfillment of my Masters in Business Administration at the United States University- Africa, I’m currently carrying out a research project on ‘Management Information Systems, Competition, Government Regulation and Sustainability of Microfinance Institutions in Kenya’ Please note that all the material given shall be treated purely for academic purposes only and will be treated with utmost confidentiality.

Yours sincerely,

Kelvin Musyoka Nzomo.
Appendix II: Questionnaire

(Kindly tick the most appropriate answer(s) or fill in the information required. Your response will go a long way in making this study a success. This information will be treated with utmost confidence and will be used for the purposes of the research only)

PART A: BACKGROUND INFORMATION
1. Name of the respondent (optional) ……………………………..
2. Designation (Position in Organization) ……………………………
3. Level of education?
   - Post Graduate [ ]
   - Degree [ ]
   - Diploma [ ]
   - Any other (Specify)………………………………………………
4. How long have you worked for this organization?
   - Less than 1 year [ ]
   - 1 - 3 years [ ]
   - 3 - 5 years [ ]
   - 5 - 10 years [ ]
   - More than 10 years [ ]

PART B: MANAGEMENT INFORMATION SYSTEMS
5. In your view to what extent does management information system affect the sustainability of micro finance institutions in Kenya?
   - Very Great extent ()
   - Great extent ()
   - Moderate extent ()
   - Little extent ()
   - No extent at all ()

Indicate your level of agreement with the following statements relating to effects of management information systems on sustainability of micro finance institutions in Kenya?

<table>
<thead>
<tr>
<th>Statement</th>
<th>1= Strongly Disagree</th>
<th>2= Disagree</th>
<th>3= Uncertain</th>
<th>4= Agree</th>
<th>5= Strongly Agree</th>
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<tbody>
<tr>
<td>Management Information Systems</td>
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<tr>
<td>6. Information systems improves the work of our field staff, enabling them to better monitor their portfolios</td>
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<td>7. Information systems enables provision of better services to our clients</td>
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<td>8. Quality information systems enable managers to</td>
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</table>
9. Quality information systems enables our senior management to better orchestrate the work of the entire organisation and make well informed operational and strategic decisions

10. Financial self-sufficiency is a necessary condition for our institutional sustainability

11. Our organisation can achieve sustainability without achieving self-sufficiency

12. Our microfinance information system programmes are sustainable at every level of clientele.

MFI Self-Sufficiency and Sustainability

13. Our organisation is making a significant dent in poverty alleviation and therefore needs to achieve massive scale in order to be profitable

14. To ensure sustainability the price of our loan product should be sufficiently high to cover operating costs, cost of funds, loan loss provisions, inflation and profit margin

15. Indicate other ways through which information systems affects sustainability of micro finance institutions in Kenya?

PART C: COMPETITION

16. In your view to what extent does competition affect the sustainability of micro finance institutions in Kenya?

Very Great extent ( )
Great extent ( )
Moderate extent ( )
Little extent ( )
No extent at all ( )

Indicate your level of agreement with the following statements relating to effects of competition on sustainability of micro finance institutions in Kenya

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<tr>
<th>Statement</th>
<th>1= Strongly Disagree</th>
<th>2= Disagree</th>
<th>3= Uncertain</th>
<th>4= Agree</th>
<th>5= Strongly Agree</th>
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</table>

17. Our organization needs to find out what our
competitors are doing and predict what they might do in the future

18. Since MFI’s have competitors, our organization must consider how this competition can affect the organization and strategize on how to counter it

19. Understanding the competition will enable our organization to identify segments of our customer base that might be at risk and to formulate a response

### Forms of Competition

20. Extreme forms of competition present a hypothetical market structure for our organization

21. Competition can act as a core of the success or failure of organization

22. Our competitor actions should be aimed at achieving sales, growing market share, mergers, acquisitions, strategic alliances or collaborative partnerships

### Competitive Strategies adopted by MFIs

23. In order to achieve greater performance our organization needs to identify growth segments

24. Our organization needs to work at achieving operational efficiency and continuously enhance the quality of its products and services

25. Use of SWOT analysis as a key component during strategy formulation and implementation is paramount in our organization.

26. To be successful, our organization must do a better job than its competitors on satisfying target customers.

27. Indicate other ways through which competition affects sustainability of micro finance institutions in Kenya?

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### PART D: GOVERNMENT REGULATION

28. In your view to what extent does government regulations affect the sustainability of micro finance institutions in Kenya?

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<tr>
<td>Very Great extent</td>
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<td>Great extent</td>
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<tr>
<td>No extent at all</td>
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Indicate your level of agreement with the following statements relating to effects of government regulations on sustainability of micro finance institutions in Kenya.
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<th>Statement</th>
<th>1 = Strongly Disagree</th>
<th>2 = Disagree</th>
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<tr>
<td>The Informal System</td>
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<td>29. Informal financial arrangements are deeply rooted in the cultures of many ethnic communities in Kenya</td>
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<td>30. Informal women’s groups that are a key vehicle for pooling of funds in our organisation</td>
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<td>31. Informal financial groups are helping in increasing the customer base of our organisation</td>
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<td>The formal subsidized system</td>
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<td>32. Formal subsidized system provide financial services and receive subsidies from the government</td>
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<td>33. The formal subsidized system offer financial support for our organisation</td>
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<td>34. The formal subsidized system plays a vital role in empowering Kenyan communities that have limited or no access to credit facilities</td>
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<tr>
<td>The Formal, Non-Subsidized System</td>
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<td>35. The government regulates the formal institutions within the financial sector with the aim of protecting customers</td>
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<tr>
<td>36. The regulatory framework for the financial sector in Kenya consists of various independent regulatory bodies, each charged with the supervision of their various sub-sectors</td>
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<td>37. The formal non-subsidized institutions include commercial banks, non-bank financial institutions, and Savings and Credit Co-operative Societies</td>
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<td>38. Indicate other ways through which government regulation affects sustainability of micro finance institutions in Kenya?</td>
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PART E: SUSTAINABILITY OF MFIs

Indicate your level of agreement with the following statements relating to sustainability of micro finance institutions in Kenya
<table>
<thead>
<tr>
<th>Statement</th>
<th>1= Strongly Disagree</th>
<th>2= Disagree</th>
<th>3= Uncertain</th>
<th>4= Agree</th>
<th>5= Strongly Agree</th>
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<tr>
<td><strong>Financial sustainability</strong></td>
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<td>39. Financial sustainability plays an integral part in the continued provision of financial products in our organization</td>
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<td>40. Our organization enjoys economies of scale and hence reduces costs which helps us to be financially sustainable</td>
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<td>41. Achieving financial sustainability is critical for our organization since it facilitates self-sustaining programs</td>
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<td><strong>Operational sustainability</strong></td>
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<td>42. Achieving operational sustainability is critical for our organization since it facilitates customer satisfaction</td>
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<td>43. Operational self-sufficiency is when the operating income is sufficient enough to cover our operational costs like salaries and other administrative costs</td>
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<td>44. Operational efficiency leads to greater satisfaction of or customers</td>
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<tr>
<td><strong>Sustainability and growth</strong></td>
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<td>45. Sustainability is achieved through our staff job satisfaction</td>
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<td>46. Sustainability is achieved through our customer satisfaction</td>
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<td>47. Indicate other ways through which sustainability affects micro finance institutions in Kenya?</td>
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**Quality Control on Data Collection**

Kindly give the following information for quality control

Name: 
Tel: 
Position:

Thank you for your co-operation
Appendix III: Sampling Frame

<table>
<thead>
<tr>
<th>MFI</th>
<th>Location</th>
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<tbody>
<tr>
<td>1</td>
<td>Kenya Women Finance Trust (KWFT) Jogoo Road Branch, Nairobi</td>
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<tr>
<td>2</td>
<td>Faulu Kenya, OTC Branch, Nairobi</td>
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<tr>
<td>3</td>
<td>SMEP(Small and Micro Enterprise Programme), Nairobi West-Ngara Branch, Nairobi</td>
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<td>4</td>
<td>Unity Investment, Donholm, Nairobi.</td>
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<td>5</td>
<td>Kash-Kilo Ltd, Donholm, Nairobi.</td>
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<td>6</td>
<td>Rafiki DTM, Nairobi.</td>
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<td>7</td>
<td>Micro Africa, Limuru, Nairobi.</td>
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<tr>
<td>8</td>
<td>Da Kenya saving and Credit Co-op, Dandora, Nairobi.</td>
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<tr>
<td>9</td>
<td>The Kenya Savings and Credit Co-operative Society, Dandora, Nairobi.</td>
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<tr>
<td>10</td>
<td>Paddy Micro Investment Ltd, Jasmine Centre, Westlands, Nairobi Kenya,</td>
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<tr>
<td>11</td>
<td>Soft Loan Enterprise, Dandora, Nairobi.</td>
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<td>12</td>
<td>Buruburu Juhudi sacco ltd, Buruburu, Nairobi.</td>
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<td>13</td>
<td>Hamza Micro credit, Hamza, Nairobi.</td>
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<td>14</td>
<td>Ustawi Ltd, Nairobi</td>
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<td>15</td>
<td>Smart Credit Ltd, Nairobi</td>
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<td>16</td>
<td>Small and Micro Enterprise Programme, Nairobi</td>
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<td>17</td>
<td>Sisdo, Nairobi</td>
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<td>18</td>
<td>Opportunity Kenya Ltd, Nairobi</td>
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<td>19</td>
<td>Microfinance Partners Ltd, Nairobi</td>
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<td>20</td>
<td>Merchant Capital, Nairobi</td>
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<td>21</td>
<td>Mega Micro Finance Ltd, Nairobi</td>
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<td>22</td>
<td>K-Rep Advisory Services (Africa) Ltd, Nairobi</td>
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<td>23</td>
<td>Kadet Ltd, Nairobi</td>
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<td>24</td>
<td>Jitegemee Trust Ltd, Nairobi</td>
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<td>25</td>
<td>Fusion Capital Ltd, Nairobi</td>
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<td>26</td>
<td>Finikiwa Micro Finance Ltd, Nairobi</td>
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<td>27</td>
<td>Faulu Kenya Ltd, Nairobi</td>
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<tr>
<td>28</td>
<td>Eurocrest Microfinance Company Ltd, Nairobi</td>
</tr>
<tr>
<td>29</td>
<td>Crossbridge Credit Ltd, Nairobi</td>
</tr>
<tr>
<td>30</td>
<td>Canyon Rural Credit Ltd, Nairobi</td>
</tr>
<tr>
<td>31</td>
<td>Business Capital Access Ltd, Nairobi</td>
</tr>
</tbody>
</table>

Source: Association of MFI institution-Kenya (2014)