AN ASSESSMENT OF PERFORMANCE OF MICROFINANCE INSTITUTIONS (MFIs) IN KENYA

By:

Ogindo Roberts Otieno

Supervisor:

Anyangu M.

A management research project submitted in partial fulfilment of the requirements for the award of the Degree in Master of Business Administration (MBA), School of Business, **University of Nairobi**
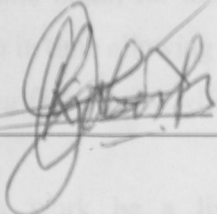
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DECLARATION

This Management Research Project is my own original work and has not been presented for a degree in any other University.
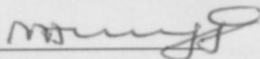
Signed: _____   Date: _25/11/06_

OGINDO, ROBERTS OTIENO

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This Management Research Project has been submitted for examination with my approval as the University supervisor.

Signed: _____   Date: _27/11/06_

ANYANGU M.

Lecturer, Department of Accounting, School of Business, Lower Kabete campus University of Nairobi.

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DEDICATION

This research project is dedicated to the following important persons in my life;

My dad and mom, for the personal sacrifice they made to ensure I got the right education in time allowing me to pursue the course.

My loving family: my wife Sue, son Rodney and my two daughters Rosebell and Ronica.

May this work be a living testimony to them that: hard work, patience, unselfishness and prayers always pays abundantly.

To all of you I say thank you.

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LIST OF ACRONYMS

AMFI	Association of Microfinance Institutions
CBK	Central Bank of Kenya
D-E	Debt-Equity ratio
DPS	Dividend per Share
EPS	Earning per Share
KPI	Key Performance Indicators
K-REP	Kenya Rural Enterprise Programme
MFI	Microfinance Institutions
NPM	Net Profit Margin
QFD	Quality Function Deployment
ROE	Return of Equity
ROCE	Return on Capital Employed
SACCOs	Saving and Credit Co-operative Societies
SD	Standard deviation
UNDP	United Nation Development Programme

ABSTRACT

The study has two major objectives firstly, to determine the various performance measures used by MFIs in Kenya. Secondly, to evaluate performance of MFIs for a five year period running from 2000 to 2004. Given the importance of Microfinance to social-economic development of a nation and the correlation between MFI performance and socio-economic growth, MFI performance is thus an issue that needs consistent monitoring to ensure positive outcomes. Credit is the engine of economic growth in capitalism, because it supplies the much needed investment capital to private entrepreneurs. Thus, if the macro-financial system operates properly, a capitalistic economy grows rapidly, making both individuals and the nation better off.

The study entailed a descriptive survey design. The population of study comprised all MFIs in Kenya, amounting to over 3,000 legally constituted entities. The sample selected was those MFIs that fall under the umbrella of the Association of Microfinance Institutions of Kenya (AMFI) between the year 2000 and 2004. A sample of 22 institutions, obtained from AMFI was used. Data collection was done using a questionnaire for primary data and a secondary data collection form for secondary data. Primary data was used to determine those performance measures used by MFIs and the extent to which these are used, while secondary data was used for determining the actual performance of the MFIs for the period under consideration. Data analysis was conducted using descriptive statistics and trend analysis.

The finding of study shows that most of the performance measures presented were significantly used by the MFIs. The MFIs personnel rated their performance on these measures as ranging from average to good on the five point Likert scales. The most widely used financial and non-financial measures included: Return on Investment, Return on Capital Employed and Net Profit Margin (Profitability measures), Debt ratio, Debt-Equity ratio and the Times Interest is Earned (Leverage ratios), Current and Quick ratios (Liquidity ratios), and Credit decision cycle time, Transaction accuracy and timeliness, Zero defects, Loan processing

cycle, Product quality and Continuous improvement (Non-financial measures). On the other hand the following measures were least or never used by MFIs: Dividend per Share, Earnings per Share, Market Book Value per Share, Earnings Yield and Price to Earning ratio. Trend analysis on the performance of the MFIs revealed some favourable minimal improvement performance over the period 2000 to 2004.

In view of the above there is need for government to put measures in place to instil prudence in the management of this sector. These measures will ensure information disclosures that will improve transparency and efficiency in the sector as a whole.

1.0   INTRODUCTION

1.1   Background

The UK supports the proposal of micro-enterprises as an option to reduce poverty; however it also recognizes that micro-enterprise development programs have to be made under the terms of productivity and sustainability in order to avoid a trade-off between efficiency and social impact (UNDP, 2006). In Mexico, the term "microfinance" refers to the relatively small community of microfinance NGOs that provide credit to micro enterprises. Given the poor population in Mexico (about 42 million), micro-finance institutions (MFIs) play an important role in poverty reduction (www.cgap.org).

Tiwari and Fahad (2005) observe that Bangladesh produced the Grameen Bank Model, acclaimed in the developing world as a vehicle for poverty reduction and growth. It has an annual growth rate of 20% and a high recovery rate of loans (98%). A still more interesting feature is the ingenious manner of advancing credit without any "collateral security". According to Mutua and Mirero (1985), in Kenya, shortcomings in the provision of microfinance such as lack of a proper structure for loan disbursements and collection of repayments have reduced MFI performance in being able to meet the objectives of achieving poverty reduction through growth and development.

Inspite of the globally acknowledged role of MFIs in poverty reduction, there has been a lack of globally acknowledged standards to rate their performance; instead, indicators tend to vary across regions. Abate, Brislin, et al. (2003) note that in 2001 this led MicroRate, a rating agency specializing in microfinance, to invite other key players in the sector to agree on the definitions of a set of commonly used indicators. Their intention was to give these indicators a common meaning. Their efforts led to publication of a list of 20 definitions of performance indicators. However, the fact that the sample included only Latin American institutions reduced its applicability when used in other regions of the world.

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MicroRate was particularly interested in its applicability in the African continent, where it has been working since the year 2000. The African Version of the "Technical Guide: Performance Indicators for MFIs" was developed for a workshop in Entebbe directed towards banking institutions interested in learning how to evaluate and measure the financial soundness of MFIs. The Guide highlights 14 of the most commonly used indicators and illustrates how they are used. It provides some explanation and analysis of the indicators for those who are interested in understanding their application as well as weaknesses (Abate, Brislin, von Stauffenberg et al., 2003).

1.1.1 Background information on the emergence of MFIs

Microfinance is the provision of financial services to the low-income, poor and very poor self-employed people. From its inception in the 1970s, microfinance has evolved in astounding ways, incorporating into its practice social and economic development concepts, as well as principles that underlie financial and commercial markets (Otero, 1999).

The field of microfinance was pioneered by specialised non-governmental organisations (NGOs) and banks such as Bank Rakyat Indonesia (BRI), Unit Desa (Indonesia), Grameen Bank (Bangladesh), Kenya Rural Enterprise Programme (K-REP), amongst others (UND Evaluation Office, 1999). The emergent of MFIs challenged the conventional banking as they tended to focus on providing small loans without collateral and at full-cost interest rates that were payable in frequent instalments. These institutions have demonstrated that the poor majority, who were excluded by the commercial banks, can be, in fact, a market niche for innovative banking services that are commercially sustainable. This is demonstrated with our Kenya case of a MFI (Equity Bank) that has grown into a commercial bank and its main focus is on the low-income group that has remained unserved by the conventional banks.

These institutions, united under the banner of microfinance, share a commitment to serving clients that have been excluded from the banking sector (Morduch,

1999). By the late 1990s, more than 8 million households had been served by microfinance programmes (Morduch, 1999). Poor people can now access credit to invest in small micro enterprises that can enhance their incomes. Microfinance is therefore no panacea, but it can be an important part of a comprehensive effort to build promising futures for millions of people

Many specialised financial institutions established in 1950s and 1960s were not able to meet the dual challenge of institutional and financial stability on the one hand, and outreach to large numbers of the poor people on the other hand. Subsequently, in the years starting 1970s to date, a variety of initiatives of microfinance schemes have been undertaken, often combining financial and social intermediation in both urban and rural areas. Advances in financial intermediation and infrastructure, stimulated by the deregulation of the financial sectors and facilitated by modern technology, have put spotlight on participatory mechanisms for integrating the poor into the economic mainstream (Josefsson, 2004). The advances in financial intermediation include recent efforts to design and deliver very small loans to poor borrowers, both individuals and groups (Schneider, 1997).

1.1.2 Organizational performance measurement

Koveos and Randhawa (2004) observe that since the objective of MFIs is somewhat unique, the manner of their performance assessment must also differ from that used to assess the performance of traditional financial intermediaries. In particular, assessment of MFIs must recognize their dual (bank and development instrument) status. Their efficiency, then, must be analyzed in terms of its economic (or financial) dimension as well as its social dimension. The first dimension may be examined with traditional measures, while examination of the second requires measures that reflect the MFIs social objectives. In order to accommodate the special nature of MFIs, Koveos and Randhawa propose the use of a Balanced Scorecard approach.

Ittner and Larcker (2003) suggest that performance measurement is used to help direct the allocation of resources: assess and communicate progress towards

strategic objectives and evaluate managerial performance. Neely et al. (1994) claim that performance measurement: helps managers to identify good performance; makes explicit the trade-offs between profit and investment; provides a means of introducing individual strategic stretch targets; and ensures that corporate management knows when to intervene if business performance is deteriorating.

Reh (2006) notes that Key Performance Indicators (KPIs) are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of an organization. They will differ depending on the organization. A business may have as one of its KPIs as the percentage of its income that comes from return customers whereas the KPIs for a social service organization might be number of clients assisted during the year.

Tapinos et al. (2005) found performance measurement to be one of the four main factors that characterize the modern practice of strategic planning. The evaluation of performance measurement revealed that it has significant influence in supporting the achievement of an organization's goals and the effectiveness and efficiency of its strategic planning process. Its impact was not significant in the adoption of successful strategies or making strategic planning a successful process. The comparison of organizations of different size and operating in environments with different rate of change, determined that performance measurement's impact is more significant in large organizations and in those operating in rapidly changing environments.

1.1.3 Microfinance Institutions in Kenya

In the Central Bank of Kenya, monthly review (CBK, 2000), MFIs are considered as organisations involved in provision of thrift, credit and other financial services, and products to Small and Microenterprises (SMEs). On the other hand the Association of Microfinance Institutions (AMFI) in Kenya, the umbrella body for MFIs operating in Kenya defines Microfinance to include "services such as

savings, deposits, insurance services and other financial instruments, and products aimed at the poor or low-income people." (Kitaka, 2001).

Sabana (2003) further observes that as at June 2003, there were an estimated 3,460 legally constituted microfinance service providers in Kenya, including 3,397 savings and credit co-operatives and co-operative like community-based intermediaries, 56 MFIs, four commercial banks, two building societies and the Kenya Post Savings Bank. Excluded from this list were 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups and 1,342 primary agricultural producer and marketing cooperative societies, also in providing credit countrywide. There are approximately 3.8 million Kenyans depending entirely on financial NGOs, cooperatives, and Kenya Post and Savings Bank for financial services.

Kenya's Poverty Reduction Strategy Paper, January 2005, states that the main objective of financial sector reform is to "enhance the environment for private savings and investment". While Kenya's government was in the process of developing a legal framework to regulate MFIs, the paper identifies the need to develop a national policy on access to financial services and microfinance. The PRSP suggests programmes such as tax incentives for micro entrepreneurs and incorporating institutions such as Kenya's Post Office Saving Bank to "expand linkages between the microfinance sector and the banking sector" (Kenya Poverty Reduction Strategy Paper, 2005, p.37). The emphasis, like in other countries, is on the role of Microfinance in growth and poverty reduction (Kesner, 2005).

1.1.4 Source of Finance for Microfinance Institutions

The government of Kenya recognises that greater access to and sustainable flow of credit to informal financial sector operations are critical to the progress in poverty reduction. Therefore, the government channels financial assistance's to SMEs through reputable MFIs and other financial institutions in effort to reduce poverty (Kitaka, 2001)

The scenario is not different in Bangladesh. The government has been financing the Grameen Bank. Khandker (1995) observes that since its establishment as a financial institution by government ordinances in 1983, Grameen Bank, has financed its activities with funds obtained at concessionary rates from external and domestic sources, including the Central Bank of Bangladesh.

Donors too play a very important role in providing finances to MFIs. In the case of Grameen Bank, they provided most of the financial resources as grant and low interest loans (Khandker, 1995). In Kenya donors such USAID has been at the forefront of providing finances to MFIs, as for the case of K-REP. On the other commercial banks have also been involved in the provisions of funds to the MFIs. According to CBK Report (2000) commercial banks provide financial services to MFIs with an aim to help them reach the SMEs. Kitaka (2001), reckons that some well established banks have come up with sections which support MFIs, as for the case of Barclays Bank – Small Business Loan, KCB Special Loan Scheme are some of the example.

According to Kitaka (2001), self-help groups also provide finances to MFIs through savings. They initiate and start an income-generating venture from which they save the surplus funds with the MFIs of their choice. These savings become a source of fund to the MFI, which can in turn lend at interest.

Other sources worth mentioning includes saving and credit co-operatives (SACCOs), Kenya Post and Saving Bank Ltd., and Rotating Savings and Credit Associations (ROSCAs)

1.2   Statement of the Research Problem

Credit is the engine of economic growth in capitalism, because it supplies the much needed investment capital to private entrepreneurs. Thus, if the macro-financial system operates properly, a capitalistic economy grows rapidly, making both individuals and the nation better off. (Elahi and Danopoulos, 2004). Given the large numbers of the poor globally, and their dependency on microcredit to fund their business pursuits, continual monitoring of the performance of MFIs which are the drivers of growth in this sector, is significant as MFI performance will correlate with the goal of poverty reduction. This, in turn, will create a sustainable base for lending to the poor.

From a funds provider perspective, progress in microfinance over the past two decades has been such that few dispute anymore whether the poor need, use or benefit from financial services. Instead, support for microfinance was increasingly turning to the question of return on investment: does microfinance offer social returns commensurate with other investment opportunities? Performance standards and benchmarks in turn were necessary to guide management decision-making and to facilitate investment decisions by private and other investors. The supply of private social investment to microfinance and its allocative efficiency were further expected to increase as a result (Woller, 2000).

Given the importance of microfinance to social-economic development of a nation and the correlation between MFI performance and socio-economic growth, MFI performance was thus an issue that needs consistent monitoring to ensure positive outcomes. To this end, this study seeks to evaluate the performance of the MFIS in Nairobi and its immediate environs.

Plenty of local literature exists focusing on the MFI sector (for example Wanjiru, 2000; Rukwaro, 2001; Kitaka, 2001; Agala-Mulwa, 2002; Kimandi, 2002; Mungumi, 2002; Lengewa, 2003; Mokogi, 2003; Mudiri, 2003; Mutonyi 2003; Ringera 2004; Maru 2004; Ndulu 2004; Mwenda 2005 and Wambundo 2005).

None have analysed the performance of MFIs from the perspective of the financial as well as non-financial performance indicators.

1.3   Objectives of the Study

The objectives of the study were as follows:

a.   To determine the performance measures used by MFIs.

b.   To evaluate the performance of MFIs.

1.4   The Significance of the Study

The study will enable us to achieve the following:

a.   The objective of this study is to analyze the performance of MFIs. These institutions are examined because of their current importance to a special group of consumers, primarily the poor and disenfranchised in the developing world, and of their future promise as an economic development solution.

b.   Inform stakeholders in the industry e.g. donors and other investors about the state of MFI performance. This will assist donors in making decisions for effective channelling of funds to the poor and in evaluating the cost effectiveness of the MFIs in generating wealth; other investors will also be informed regarding where to place their funds for maximum returns.

c.   Add to the existing body of research and academic knowledge in the MFI sector. This will make available, information about MFIs in Kenya regarding their performance and provide secondary data for future comparative studies with the MFI sector in other nations. The study will also provide leads to areas for further research.

2.0 LITERATURE REVIEW

2.1   Introduction

This Chapter reviews the concept of organizational performance by looking at the various developments in the area. This will reflect on among others, the Balanced Scorecard, that includes both quantitative and qualitative measures of firm performance. Actual practice of performance evaluation in MFIs will be surveyed. Finally, the challenges and constraints affecting MFI performance in Kenya will be addressed.

2.2   Organizational Performance measures

2.2.1 Introduction

Neely et al. (1995) describes performance measurement as the process of quantifying action, where measurement is the process of quantification and action correlates with performance. They further propose that performance should be defined as the efficiency and effectiveness of action, which leads to the following definitions: performance measurement is defined as the process of quantifying the efficiency and effectiveness of action; a performance measure is defined as a metric used to quantify the efficiency and/or effectiveness of an action; a performance measurement system (PMS) is defined as the set of metrics used to quantify the efficiency and effectiveness of action.

Critical characteristics of organizational performance measures are that they must be derived from strategic objectives to ensure that employee behaviour is consistent with corporate goals; the measures must provide timely, relevant and accurate feedback, from both a long-term and short-term perspective; measurement should be undertaken in ways that are easily understood by those whose performance is being evaluated; measurement should be accomplished by a limited number of performance measures that consist of both financial and non-financial measures (Tangen, 2002); are clearly defined with an explicit purpose; stimulate

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continuous improvement (Neely et al, 1996a); link operations to strategic goals and are relevant and easy to maintain (Lynch and Cross, 1991).

2.2.2 Performance measurement in Microfinance Institutions

2.2.2.1 Asset Quality

The largest source of risk for any MFI resides in its loan portfolio. Not only is the loan portfolio normally by far the largest asset of an MFI but also, to make matters worse, the quality of that asset and therefore the risk it poses, can be difficult to measure. For MFIs, whose loans are typically not backed by collateral, portfolio quality is absolutely crucial. Fortunately, many have learned how to maintain loan portfolios of very high quality. In fact, in many countries, leading MFIs typically outperform their commercial bank peers.

The most widely used measure of portfolio quality in microfinance is Portfolio at Risk (PaR), which measures the portion of the loan portfolio "contaminated" by arrears as a percentage of the total portfolio. Although various other measures are regularly used, PaR has emerged as the indicator of choice. It is easily understandable, does not understate risk, and is comparable across institutions. A microenterprise loan is typically considered to be at risk if a payment on it is more than 30 days late. This rule is much stricter than what is practiced among commercial banks, but it is justified given the lack of bankable collateral in MFIs.

In addition to the Portfolio at Risk indicator, four other indicators related to portfolio quality and associated risks are Write-Off Ratio (Value of Loans Written-Off / Average Gross Portfolio), Loan Loss Reserve Ratio, Provision Expense Ratio (ratio of the loan loss provisioning expense for the period and the period's average gross portfolio) and Risk Coverage Ratio (Loan Loss Reserves/Outstanding Balance of Loans affected by Arrears over 30 days + Refinanced Loans)

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2.2.2.2   Efficiency and Productivity

Efficiency and productivity indicators are measures that show how well the institution is streamlining its operations. Efficiency indicators also take into account the cost of the inputs and/or the price of outputs, while productivity indicators reflect the amount of output per unit of input. Since these indicators are not easily manipulated by management decisions, they are more readily comparable across firms than, say, profitability indicators such as return on equity and assets.

On the other hand, productivity and efficiency indicators are less comprehensive indicators of performance than those of profitability. MFIs have much lower rates of efficiency than commercial banks, because dollar per dollar microcredit is highly labour intensive increasing the administrative cost. Indicators used to measure productivity and efficiency include Operating Expense Ratio (Operating Expenses/Average Gross Portfolio), Cost per Loans, Personnel Productivity {(Number of Active Borrowers [excluding Consumer and Pawn Loans])/ Total Staff} and Loan Officer Productivity (Number of Active Borrowers/Number of Loan Officers).

2.2.2.2   Financial Management

Financial management assures that there is enough liquidity to meet a MFI's obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office function, decisions in this area can directly affect the bottom line and even the survival of the institution. Errors in liquidity or foreign exchange management, for example, can easily compromise an institution with efficient credit operations and otherwise sound management. The importance of adequate liquidity, and hence of financial management, grows further if the MFI has mobilized savings from depositors. Five indicators to gauge the financial management of a MFI include Financial Expense Ratio, Cost of Funds Ratio, the Debt/Equity Ratio, Capital Adequacy Ratio and Liquidity Ratio.

2.2.2.3   Profitability

Profitability indicators such as return on equity and return on assets, tend to summarize performance in all areas of the company. If portfolio quality is poor or efficiency is low, this will be reflected in profitability. Because they are an aggregate of so many factors, profitability indicators can be difficult to interpret. The fact that an MFI has a high return on equity says little about why that is so. All performance indicators tend to be of limited use (in fact, they can be outright misleading) if looked at in isolation and this is particularly the case for profitability indicators. To understand how an institution achieves its profits (or losses), the analysis also has to take into account other indicators that illuminate the operational performance of the institution, such as operational efficiency and portfolio quality.

Analysis of profitability is further complicated by the fact that a significant number of MFIs still receive grants and subsidized loans. "Comparing apples with apples" is always a problem in microfinance because subsidies are still widespread and accounting practices vary widely. Creative accounting can have an astonishing impact on profits. Relatively few MFIs are regulated and it would be easy to achieve a dramatic change in their profitability through the simple expedient of adjusting the level of loan loss reserves and other manipulations of financial statements. An analyst who focuses exclusively on profitability would have no way of detecting this.

Four indicators to assess profitability include Portfolio Yield (Cash Financial Revenue / Average Gross Portfolio), Return on Equity (Net Income / Average Equity), Return on Asset (Net Income / Average Assets), Net Interest Margin (Net Interest Income / Average Gross Portfolio) and Non Interest Income (Non Interest Income / Total Operating Income).

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2.2.3 Performance measurement in small firms

Small- and Medium- size Enterprises (SMEs) may be differentiated from larger companies by a number of key characteristics. These are generally described as: personalised management, with little devolution of authority (Addy et al., 1994); severe resource limitations in terms of management and manpower, as well as finance (Burns and Dewhurst, 1996); reliance on a small number of customers, and operating in limited markets (Ghobadian and Gallear, 1997); flat, flexible structures (Appiah-Adu and Singh, 1998); high innovatory potential (Berry, 1998); reactive, fire-fighting mentality (O'Regan et al., 1998); informal and dynamic strategies (Haywood, 1999).

The resource limitations associated with SMEs indicate that the dimensions of quality and time are critical to ensure that waste levels are kept low, and that a high level of productivity performance is attained. Similarly, the reliance on a small number of customers suggests that to remain competitive, SMEs must ensure that customer satisfaction remains high and that they can be flexible enough to respond rapidly to changes in the market (Hudson et al., 2001).

Hudson et al. (2001) further note that the financial dimension of performance is critical for both large and small companies, but given the lack of a monetary safety net to absorb the impact of short term fluctuations resulting from change, this dimension is paramount in SMEs. Finally, then flatter structure of SMEs means that employees often have a greater number of job roles and more responsibility. In these circumstances, a well trained and motivated workforce is also paramount and necessitates effective monitoring of the human resource dimension.

SMEs that link operations to their business strategies outperform the competition (Argument et al., 1997). The implication of this for PM development is that the measures should be strategically aligned and should provide an explicit link back to operations (Greatbanks and Boaden, 1998). An advantage of this is that the PM system would provide data that could input directly into the strategy formulation process. In addition, given the resource and time constraints imposed on SMEs,

performance measures should be clearly defined, have an explicit purpose, be relevant and easy to maintain and be simple to understand and use.

2.2.4 Trends in Performance Measurement

Performance measurement gives feedback on the effectiveness of plans and their implementation (Chow et al., 1998). Both business managers and accountants are keenly aware of the important role performance measurement plays in an organization's planning and control system. Reporting on firms' past performance is one of the fundamental uses of performance measurement system (Chan, 2004).

Chan (2004) further notes that traditionally, the focus of performance measurement has been on financial measures such as sales growth, profits, return on investments and cash flows. There is, however, increasing concern among business managers on the over-reliance of financial measures in performance evaluation.

In a survey on the quality, uses and perceived importance of various financial and non-financial measures, Lingle and Schiemann (1996) report wider disparities between the perceived quality and importance of non-financial measures as compared to financial measures. Perceived inadequacies in a traditional performance measurement system that focuses on financial measures have led many organizations to switch to and put greater emphasis on forward-looking non-financial measures such as customer satisfaction, employee learning and innovation (Ittner and Larcker, 1998).

Another typology, which is helpful in deciding what to measure, classifies performance measures as reactive and proactive. The reactive measures are lagging indicators. They are descriptive of what has happened in the past. They show the results of the company's past performance. Traditional financial measures such as revenue, costs, profits, and return-on-equity are lagging indicators (Manoochehri, 1999).

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Manoochehri (1999) further notes that in contrast, proactive performance measures are preventive in nature and are leading indicators. These measures can anticipate and impact the future desired results. For example, decreasing quality level, and lower employee morale are often followed by lower customer satisfaction, and consequently a deterioration of financial results. It is argued that if management focuses on leading indicators, the lagging indicators will follow

The Institute of Management Accountant (IMA) has long advocated the creation of a broad-based performance measurement system where: ... performance indicator systems must be forward-looking as well as historical, must focus on significant external relationships as well as internal functions or processes, and must track leading non-financial and financial indicators (Institute of Management Accountants, Statement 4U, 1995, p. 10).

Despite the growing interest in incorporating non-financial measures in an organization's performance measurement system, empirical evidence (Foster and Gupta, 1997) on the linkage of non-financial measures with share value and future financial performance is inconclusive. It is important to note that performance measurement and performance management are not the same. Each segment in a large organization may develop highly specific performance measurement information for its own operations and this will allow that segment to operate effectively. However, while each manager strives to optimize the performance of his division, the overall performance of the organization may be sub-optimized (Rummer and Brache, 1995).

Alternatively, some companies focus on identifying the "critical success factors", in defining the performance measures. The managers are to indicate the critical success factors: resources, capabilities, processes, results, etc., for achieving the unit's goals. Then performance measures are developed to monitor the attainment of these factors. This approach helps to emphasize the difference between performance measures monitoring results versus activities and capabilities. While measuring results, such as profit, sales, and meeting shipment dates is necessary to monitor performance of the company, they do not tell what went wrong or what must be done to improve the performance. For example, measuring results of a

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product development process such as schedule and cost might indicate that a project is late and over budget Manoochehri, 1999). However, that does not tell what to do differently. In contrast, measuring activities and capabilities, such as staffing level during the course of the project might indicate what went wrong (Meyer, 1994). Companies need to establish what activities and capabilities are critical for achieving a given result; and measure results as well as the activities and capabilities.

Only a performance management system engenders strategic evolution and ensures goal congruence. As the balanced scorecard provides a comprehensive, top-down view of organizational performance with a strong focus on vision and strategy, performance management can be greatly facilitated through its use (Missroon, 2000).

2.2.5 Performance measurement in non-profit Organizations

Bearing in mind that some MFIs may be non-profit oriented, it is useful to review performance measurement in non-profits. (Sawhill and Williamson, 2001) observe that many non-profit organizations lack even the simplest financial metrics, such as net income or return on investment. Non-profit organizations have difficulty in developing quantitative metrics useful for evaluating the performance of the organization because they often have contradictory objectives related to the offering of services and intangible products (Kaplan, 2001).

Non-profit organizations may have non-financial indicators that measure the quantity and quality of services. However these indicators often lack a rigorous underlying selection methodology and may often contain data of doubtful integrity. Furthermore, while they have indicators, they do not know whether they are strategy related (Herzlinger, 1996). Sheehan's (1996) study of philanthropic organizations concluded that while almost all had defined their mission, very few had developed a system of indicators, which provided for the measurement of the extent to which they were following their mission or the effectiveness of their mission on population they were serving.

2.2.6 The Balanced Scorecard (BSC)

The balanced scorecard is a performance measurement and strategic management system. It translates an organization's mission and strategy into a balanced set of integrated performance measures. It complements the traditional financial perspective with other non-financial perspectives such as customer satisfaction, internal business process as well as learning and growth. It also mixes outcome measures, the lagging indicator, with performance drivers, the leading indicator, because "outcome measures without performance drivers do not communicate how the outcomes are to be achieved" (Kaplan and Norton, 1996, p. 105).

Manoochehri (1999) notes that the BSC includes four different sets of measures:

1. Financial perspective: How do we look to shareholders?
2. Customer perspective: How do customers see us?
3. Internal business perspective: What must we excel at?
4. Innovation and learning perspective: Can we continue to improve and create value?

By selecting appropriate performance drivers and outcome measures to fit in the theory of business in a chain of cause and effect relationship, the organization will have a better idea of how to achieve its potential competitive advantage. The balanced set of performance measures also tells a concise yet complete story about the achievement and performance of the organization toward its mission and goals. It provides a holistic view of what is happening in the organization. By tying these performance measures to rewards, the BSC ensures that employees will do what is best for the organization (Chan, 2004).

The BSC is a tool, which has been utilized primarily in the profit-oriented business sectors. Consequently, the overarching objective is to increase long-term shareholder value through the balancing of specific indicators. The logic inherent in the four perspectives is that the learning and growth perspective indicators are leading indicators addressing the generation of value in the future, the internal

processes and customer perspective indicators address how value is being presently created, and the financial perspective lagging indicators addressing how value was created in the past. The cause-effect relationships between the indicators of each of the different perspectives demonstrate the extent to which the organization is balancing past, present and future value creation. The fundamental problem is that if the overarching objective is no longer to increase long-term shareholder value, then it does not necessarily follow that four perspectives are appropriate (Urrutia and Eriksen, 2005).

In profit-seeking organizations the financial perspective is fundamental since it provides the information necessary to evaluate whether the organization has been effective in achieving its objective of creating shareholder value. Non-profit organizations likewise need to monitor their financial performance but for a different reason; their financial performance is the means to an end as opposed to the end itself as is the case with profit-seeking organizations. Consequently non-profit organizations need to include a mission perspective that addresses how effectively they are achieving their particular mission. (Ministerio Español de Sanidad y Consumo, 2001).

2.3   Dimensions of Performance

2.3.1 Introduction

The dimensions of performance for which measures, within a strategically aligned performance measurement system, should be developed have been defined using a variety of terms in the literature. Time, quality and flexibility are commonly cited as the main operational dimensions, which should be measured (for instance Lynch and Cross, 1991).

Ghalayini and Noble (1996) observes that time is proposed as the new strategic metric that companies should strive to measure and improve in order to be able to compete in the world market. The importance of time can be realized from the following argument: measuring, controlling and compressing time will increase

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quality, reduce costs, improve responsiveness to customer orders, enhance delivery, increase productivity, reduce risks since reliance on forecasts is reduced, increase market share and increase profits.

Finance, in various different forms, is also considered to be a critical dimension of performance (for instance Ghalayini et al., 1997). In addition, customer satisfaction and human resources are repeatedly cited as critical measurement areas (for instance Kaplan and Norton, 1992). Hudson et al. (2001) document critical dimensions as those falling under quality, time, flexibility, finance, customer satisfaction and human resources.

For each of the main operational dimensions, Hudson et al. (2001) come up with the following sub-dimensions:

a. Time: Lead time, delivery, reliability, process throughput time, process time, productivity, cycle time, delivery speed, labour efficiency and resource utilization.

b. Quality: Product, performance, delivery reliability, waste, dependability and innovation.

c. Flexibility incorporates manufacturing effectiveness, resource utilization, volume flexibility, new product introduction, computer systems, future growth and product innovation.

d. Finance incorporates cash flow, market share, overhead cost reduction, inventory performance, cost control, sales, profitability, efficiency and production cost reduction.

e. Customer satisfaction is dimensioned by market share, service, image, integration with customer, competitiveness, innovation and delivery reliability; and finally,

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f. Human resources is mapped by employee relationships, employee involvement, workforce, employee skills, learning, labour efficiency, quality of work life, resource utilization and productivity.

2.3.2 Time-based performance measurement systems

Stalk and Hout (1990) states that time-based companies should go beyond measures like lead time, on-time delivery and response time to time-based metrics which could be use as diagnostic tools throughout the organization. They summarized the main time-based metrics that companies could use into four different areas: developing new products which includes, time from idea to market, rate of new-product introduction, and percentage first competitor to market: decision making which includes, decision cycle time and time lost waiting for decisions: processing and production, which includes value added as percentage of total elapsed time, uptime yield, inventory turnover and cycle time (per major phase of main sequence) and customer service, which includes response time, quoted lead time, percentage deliveries of time and time from customer's recognition of need to delivery.

Azzone et al. (1991) present a framework of performance measures for time-based companies. Their model contains three main areas in which time measures should be applied: research and development (R&D), operations and sales and marketing.

Barker (1993) provides a time-based performance measurement system that is based on the concept of positive and negative value-adding measurements. Improvement efforts are directed to reduce negative value-adding components and decrease system throughput time. The advantage of the performance measures presented by Stalk and Hout, Azzone et al. and Barker is that they are simple and easy to understand and use. The main disadvantage of these performance measures is that they solely concentrate on time and neglect other operational performance measures such as quality, cost and delivery. Without controlling and improving these operational measures companies will not be able to compress time

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2.3.3 The Quality Function Deployment (QFD) approach

QFD is mainly a tool to help companies focus on what customers perceive as important and certify that these desired abilities exist in the final product or service. The work is usually documented in a series of matrices. Its primary benefits are reduced design costs and development time (Hofmeister and Slabey, 1988). Other benefits include improved communication and cohesion within a product development or improvement team and solidifying design decisions early in the development cycle (Morrell, 1987). Although originally developed in a product context, the method has been adapted and gainfully applied to services as well (Kanji and Asher, 1996).

Various applications and studies have shown many benefits of QFD (Chan and Wu, 2002). Sullivan (1986) stated that QFD brings efficiency to companies because misinterpretation and need for changes are minimized. Burrows (1991) emphasizes the strategic benefits such as better understanding of customer needs, increased quality of advertising and communication, and faster decision making.

Brown (1991) concludes that QFD leads to superior product quality and design, shorter design cycles with fewer engineering changes, higher potential for radical innovations, lower product and project costs, and more satisfied customers. Bossert (1991) argues in a similar vain, by offering detailed list of QFDs benefits such as more customer orientation, reduction of implementation time, better promotion of teamwork, and higher customer satisfaction which leads to customer loyalty that results in future businesses and word of mouth.

Slack et al. (2001) observes that high-quality operations do not waste time or effort having to re-do things, nor are there internal customers inconvenienced by flawed service. External customers benefit from on-specification products and services; fast operations reduce the level of in-process inventory between micro operations, as well as reducing administrative overheads-products can also be delivered earlier to the customer; dependable operations can be relied on to deliver exactly as

planned. This eliminates wasteful disruption and allows the other micro operations to operate efficiently

Its adherents claim that managers can implement QFD in any organization-manufacturing, service, nonprofit or government, and that it generates improved products and services, reduced costs, more satisfied customers and employees and improved bottom line financial performance. The latter claim is controversial. Although many adherents openly praise QFD, others have identified significant costs and implementation obstacles (Clausing, 1994). Critics have suggested, for example, that QFD entails excessive retraining costs, consumes unrealistic employee commitment levels, emphasizes process over results and fails to address the need of small firms, service firms or nonprofits (King, 1987).

2.3.4 Productivity measures of performance

Teague and Eilon (1973) state the following four issues concerning the importance of measuring productivity: strategic (i.e. comparison with competitors or related firms); tactical (i.e. management control of the performance of the firm); planning (i.e. comparison of the relative benefits from the use of different inputs); and internal management (i.e. collective bargaining with trade unions).

Edosomwan (1985) argues that there are three basic forms of productivity that have been accepted by most researchers and practitioners: partial productivity, total factory productivity and total productivity. Partial productivity is defined as "the ratio of total output to one class of input" (i.e. output per labour hour); total factor productivity is defined as "the ratio of total output to the sum of associated labour and capital (factors) inputs; total productivity is defined as "the ratio of total output to all input factors". The limitations of productivity can be classified into three main categories: partial productivity, aggregate productivity and the productivity paradox.

The advantage of partial productivity measures is that they are simple to understand and to measure in reality. The needed data are usually easy to obtain

and partial productivity indices are not difficult to calculate (Sumanth, 1994). It is also easy to pinpoint a specific partial productivity measure for an important smaller area, function or department in a company. This means that partial measures can detect improvements and the reasons behind them more easily than broader measures (Tangen, 2003).

Tangen (2003) notes that the most common partial productivity measure is without any doubt labour productivity, e.g. output per working hour or output per employee. However, much criticism has been aimed at this way of calculating productivity. Suh (1990), for example, argues that terms like labour productivity are becoming useless measures in modern manufacturing operations, since the total direct labour cost is becoming a smaller fraction of the total manufacturing cost.

Edosomwan (1985) further states that the actual danger of partial productivity is that it overemphasizes one input and neglects others. Whereas aggregate productivity measures attempt to account for all or most of the system inputs and since inputs are not homogeneous and some are intangible representing them is a difficult task. In addition the consideration of all inputs requires significant amounts of data that are time consuming and costly to obtain. Finally, in reference to aggregate productivity measurements, Armitage and Atkinson (1990, p. 94) found that managers refer to aggregate measures as "misdirected, irrelevant, or too complex to be understood and effective in motivating performance".

The third category of limitations is what Skinner (1986) called the "productivity paradox". Skinner argues that concentrating on improving productivity has its disadvantages. Productivity is mostly concerned with direct labour, which is no longer a significant portion of cost. Thus, decreasing the cost of direct labour and/or increasing direct labour efficiency do not contribute significantly to the overall performance of the company. Moreover, focusing excessively on the efficiency of factory workers and departments detracts attention from improving the production system itself.

2.3.5 Financial based measures of performance

Although financial measures can appear in several different forms, three of the most common ones can be explained as: profit margins measure how much a company earns relative to its sales. These measures determine the company's ability to withstand competition and adverse rising costs, falling prices or declining sales in the future (Ross et al., 1993).

Zairi (1994) observes that return on assets (ROA), is one of the most widely used financial models for performance measurements. Tangen (2003) notes that ROA determines the company's ability to utilize its assets. However, it should be noted that ROA does not tell how well a company is performing for the stockholders. Return on equity (ROE) measures how well the company is doing for the investor (i.e. stockholders), since it tells how much income the investors are getting for their investments.

2.3.5.1   Weakness of Financial Measures

There are significant limitations of financial measures, since they are based on simple cost accounting systems that were common in the early 1900s. Such systems often focus on controlling and reducing direct labour costs and can therefore not adapt to today's competitive environment. This has led many to realize that the traditional approach to performance measurement using financial measures has a number of limitations (Tangen, 2003).

Financial measures show a lack of relevance to the control of production and are not directly related to strategy (Maskell, 1991). Excessive use of ROI also distorts strategy building (Hill, 1995). Traditional criteria such as cost efficiency and utilization may pressure managers and supervisors into maximizing short-term results and, therefore, discourage improvements (Crawford and Cox, 1990). Financial measures are clearly concerned with cost elements and try to quantify performance solely in financial terms, but many improvements are difficult to

quantify directly in monetary value, such as lead-time reduction (Ghalayini et al., 1997).

Financial reports are usually produced monthly and the results are the outcome of decisions that were made one or two months prior. They also have a predetermined inflexible format that is used across all departments ignoring the fact that most departments have their own unique characteristics and priorities (Maskell, 1991). Financial measures are not applicable to the new management techniques that give shop-floor-operators responsibility and autonomy (Ghalayini et al., 1997). Financial measures do not penalize overproduction and do not adequately identify the cost of quality (Bitichi, 1994).

Ghalayini and Noble (1996) observe that it is important to realize that when a company is making a profit this does not necessarily imply that its operations, management and control systems are efficient. Therefore, profit as a performance measure can only reveal that there is a problem, but provides little about the nature and the reasons for that problem. Additionally, Globerson (1985) argues that the claim that profit or rate of return can be considered as a composite indicator of the organizational success is not valid because such an indicator does not help in identifying specific areas that need improvement.

2.3.6 Customer Satisfaction and Human Resource elements

Thompson (1998) points out that motivated, productive, committed employees create satisfied, maybe even "delighted" customers, whose continued business enables high financial returns. To sustain the circle, this financial success must, in part, reward employees adequately and satisfactorily. While these dependencies are clear and obvious, measurement of the extent of the satisfaction is not always straightforward. Moreover, there are conflicting pulls-the financial expectations of shareholders, particularly in the short term, may impose cost restraints which affect the ability of the organization to meet the needs and expectations of its customers, thereby threatening the virtuous circle. A further potential threat to the virtuous circle comes from competitors, whose actions and initiatives can reduce the

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relative perception of a company's ability to satisfy its customers and also put pressure on costs by forcing price reductions.

Thompson (1998) also points out that it is essential then, but only as a first step, to measure resource utilization efficiencies. But this, by nature, has a predominantly internal perspective, and it is established that a business cannot sustain long-term success if it fails to satisfy its external stakeholders. In a competitive environment, effectiveness measures, such as customer satisfaction linked to service, are equally critical-as many organizations have now realized. Selected aspects of this can be measured straightforwardly with various types of satisfaction survey; but other elements are trickier. Innovation, supported by learning, underpins customer care and service. While this must, by nature, be difficult to measure objectively, attempts can be made to judge the level of activity and the extent to which it is growing.

Atkinson et al. (1997) support the contention that satisfied employees are productive - and productive employees are essential for financial success. They suggest that employee satisfaction depends on four key variables:

1. Compensation schemes and rewards;
2. The culture of the organisation;
3. The prevailing style of management; and
4. Job design and responsibility.

Organisations are now just as likely to have stated and measured objectives covering customer relations and people-related issues, as they are profit and profitability improvement. While it is acknowledged that elements of this are difficult, there is increasing evidence-but certainly not universal practice-of surveys of employee morale, satisfaction and opinion. Leadership and team behaviour, for example, can be usefully evaluated with 360° appraisals, but attempts at this by various organisations have enjoyed mixed success (Thompson, 1998).

2.4   Challenges facing performance of MFIs

The issues and problems limiting microcredit acquisition can be grouped into two broad categories: lack of tangible security coupled with an inappropriate legal and regulatory framework that does not recognize innovative strategies for lending; and the limited access to formal finance due to poor and insufficient capacity to deliver financial services to Micro- and Small Enterprises (MSEs) (GoK, 2005).

Omino (2005) observes that the microfinance sector in Kenya has faced a number of constraints that need to be addressed to enable them to improve outreach and sustainability. The major impediment to the development of MFIs in Kenya is lack of specific legislation and regulations to guide the operations of the sub-sector. MFIs in Kenya are registered under eight different Acts of Parliament (Omino, 2005).

Omino (2005) further observes that some of these forms or registrations do not address issues regarding ownership, governance, and accountability. They have also contributed to a large extent to the poor performance and eventual demise of many MFIs because of a lack of appropriate regulatory oversight. This has had a bearing on a number of other constraints faced by the industry, namely: diversity in institutional form, inadequate governance and management capacity, limited outreach, unhealthy competition, limited access to funds, unfavourable image and lack of performance standards.

Additionally, the present legal and policy framework is less supportive of smaller than larger borrowers and needs to be addressed. The banking act prevents MFIs from mobilizing savings and taking deposits for re-investment.. The Post Office act prevents the post bank from lending, and the Co-operatives act does not provide for effective supervision of the Savings and Credit Co-operative Societies (SACCO's) (GoK, 2005).

The lack of oversight, however, has enabled them to innovate and develop different techniques of providing micro finance services. Therefore, to stimulate

the development of the sector, appropriate laws, regulations and supervision framework need to be put in place. This can best be achieved through enactment of a microfinance legislation that clearly defines the roles to be played by the Government, the Central Bank of Kenya, and the microfinance practitioners, hence the proposed Deposit Taking Micro Finance Bill (Omino, 2005).

In addition, there is structured institutional mechanism in Kenya to facilitate the flow of fund from the formal financial sector through MFIs to MSEs. This increases the cost of credit to both the entrepreneur and financial institutions. Availability of collateral is limited by the difficulty of obtaining legal title to land. Despite the increasing number of MFIs, their outreach has remained severely constrained, especially in the rural areas because of their limited resource base and lack of institutional capacity to provide a wide range of financial services. At present, MFI outreach is basically through group lending schemes, which have limited absorptive capacity for financial resources (GoK, 2005).

Policies and strategies designed to boost credit and finance to the MSE sector have been formulated in the absence of reliable information on appropriate methodologies, data on the magnitude of sector, characteristics of MSE sector operators and factors influencing the growth and dynamics of the sector. The situation translates into high credit transaction costs for collecting and verifying available information mainly on the creditworthiness of MSE sector borrowers (GoK, 2005).

2.4.1 How to collect non-financial performance measurement data

Manoochehri (1999) points out that the data collection for non-financial measures that can pose a problem. In developing new measures, managers should be concerned with availability of the required data. Are the required data currently available? If not, is the existing information system capable of collecting, analyzing and reporting the data efficiently? If not, how can the information system be modified to collect the required data? What is the cost? If the cost is too high to justify the use of the measure then an alternative measure should be selected for which information can be collected.

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In some cases, the existing information system may be incapable of providing the desired data; and given the significance of the measures, a new information system might have to be developed. A system architecture has to be defined and the supporting technologies, procedures, and rules to regulate the flow of information have to be put in place. (Eccles, 1991).

Another challenge is that while many companies view non-financial measures as important, they are not capturing data on these measurers. One explanation for this gap is the lack of the information systems' capability to collect data, as discussed. Another explanation is that many of these measures are perceived to be immeasurable or difficult to measure and therefore useless. In fact, some non-financial measures are subjective and cannot be easily quantified and meaningfully measured with numbers. It is a mistake to consider them useless. They can be effective if they can be described in words. The key is verifiability: Can one verify that the performance standard has been met or exceeded (Zigon, 1994)?

If so, the measure is useful as a tool for communicating expectations and monitoring progress. Descriptive performance measures can be verifiable if they have three components: a judge, factors the judge looks for and a verifiable description of what represents meeting expectations. Developing and using descriptive measures can take more of the managers' time. That is a cost that should be incurred if the measure has significant impact. Often, these subjective measures are the leading indicators that can have major consequences for the financial results (Schiemann and Lingle, 1997).

2.4.2 Getting staff to use the measures

The collected information and measures do not get used either because they are not relevant, or because the managers do not understand their relevance, significance and use. It is very critical that management defines and designs measures that are relevant for the user. Performance measures are effective only if they are consistent with users' needs and consequently are used by users. These needs are

to be explored and determined by talking to supervisors and employees who use the measures.

The manager's perception of a measure's relevance is highly impacted by how well he or she can impact the results. The purpose of using performance measures is to monitor the actual performance and compare it to a pre-specified goal in order to measure progress toward the goal. If there is a significant dispersion between the two, corrective action is needed. However, does the manager have control over the resources, inputs, and processes to take the required corrective action? If not, the performance measures are useless.

It is crucial that the performance measures crafted for each unit of the organization be consistent with the level of authority, responsibility and skills of the person overseeing that unit. Otherwise, at best, it is a waste of resources in setting up a measure and collection data and then not using it; and at worst, it can lead to employees' resistance to the use of the measure and game playing to falsify the perceived desired results.

A factor that can impede the use of measures is their proliferation. A misconception about performance measures is "the more the better." In contrast, the overriding principle regarding performance measures is to use fewer rather than more. Using too many performance measures is wasteful, as most of them will not be used. Some companies spend a great deal of resources to collect reams of data and produce many reports that will not be used. Also, a more important problem with having too many measures is that the high number of measures confuses the users who may not know the relative importance of the measures and, therefore, may not focus on the most important ones.

Finally, to keep the performance measures relevant and effective, they should be reviewed periodically. Performance measures are put in place to guide and monitor progress toward the goals. Today, many companies face a very dynamic environment that will impact their strategies, critical success factors and goals. Their performance measures should evolve to reflect these changes. Changes in performance measures might be necessary because of changes in the organization

structure or upgrade of operations technology. Therefore, the performance measurement system must be reviewed periodically and modified as needed.

3.0   RESEARCH METHODOLOGY

3.1   Research Design

The study employed a descriptive survey design. Mugenda and Mugenda (1999) define descriptive research as a process of collecting data in order to answer questions regarding the current status of the subjects in the study. Descriptive research determines and reports the way things are. Mugenda and Mugenda also define a survey as an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. Thus the descriptive survey is appropriate as it seeks to ascertain the state performance of MFIs and the suitability of the different measures as per the outcome of the research.

3.2   Population of Study

The population of the study comprised of 3,460 legally constituted microfinance service providers, including 3,397 savings and credit co-operatives and co-operative like community-based intermediaries, 56 MFIs, four commercial banks, two building societies and the Kenya Post Savings Bank. Informal finance includes 17,305 rotating savings and credit associations (ROSCAs), 115,884 registered women groups and 1,342 primary agricultural producer and marketing cooperative societies, providing microcredit countrywide.

3.3   Sample and Sampling Method

Sampling method was convenient study. The sample was composed of all those MFIs registered with the Association of Microfinance Institutions (AMFI) as at 31st December 2004 (Appendix 3). This was a total of 22 institutions. They were chosen on the assumption that being registred under the AMFI umbrella, they will demonstrate professionalism in their operations and are more likely to demonstrate characters of organizations that have adopted modern management techniques. AMFI places requirements on its members that encourage such conformity.

3.4   Variables of the Study

The variable under study was performance. This variable was grouped into five categories, namely, very poor performance; poor performance; average performance; good performance and excellent performance. These formed a Likert scale with five response categories.

3.5   Data Collection

The research instrument was a questionnaire (Appendix 2) and a secondary data collection form (Appendix 3). Secondary data was used to determine actual performance on the various dimensions of performance of the MFIs. The questionnaire was divided into two parts; Part 1 aimed to capture general demographic data about the MFIs and Part 2 addressed objective (a). It consisted of open-ended and closed-ended questions. The instrument was addressed to the chief executives or finance managers or their designated backups; the "drop and pick later" method was be used.

3.6   Data Analysis

Data analysis was conducted using descriptive statistics. This included the use of measures of central tendency (the mean) and measures of spread (standard deviation) and frequency tabulations. Trend analysis was also carried out to establish the performance of MFIs through years 2000 to 2004 from the financial performances measures obtained from MFIs financial reports over the mentioned period. The trend analysis enabled one to establish whether there was increase or decline in performance over the same period

4.0 DATA ANALYSIS AND FINDINGS

4.1 Introduction

Out of the 22 MFIs registered with AMFI as at 2004, 14 responded. The response rate was thus 63.6%. This was considered sufficient given the time limitations and also in view of the fact that the respondents were over 50% of the sample in the question, which yielded itself to meaningful statistical analysis.

4.2 General information about the respondent organizations

Table 4.2.1   Ownership

Variable	Frequency	Percent	Valid Percent
Local	11	78.6%	84.6%
Foreign	2	14.3%	15.4%
Total	13	92.9%	100.0%
No response	1	7.1%	
	14	100.0%	

Majority of the MFIs were locally incorporated (85% of the MFIs that responded) while only 15% were foreign owned. Table 4.2 above shows the breakdown of MFIs in terms of ownership origin.

Further analysis showed that most of the MFIs in Kenya were either privately or publicly owned, with a small percentage representing part private/public and parastatal ownership. Table 4.2.2 below shows 46% and 39%, private and public ownership respectively, while private/public and parastatal ownership each constitute 8%.

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Table 4.2.2   Ownership Structure

Variable	Frequency	Percent	Valid Percent
Private owned	6	42.9%	46.2%
Part private/part public	1	7.1%	7.7%
Public owned	5	35.7%	38.5%
Parastatal	1	7.1%	7.7%
Total	13	92.9%	100.0%
No response	1	7.1%	
	14	100.0%	

Table 4.2.3   Size in terms of staff numbers

Variable	Frequency	Percent
Below 10	2	14.3%
10 - 49	2	14.3%
50 - 249	4	28.6%
250 and above	6	42.9%
Total	14	100.0%

Table 4.2.3 above shows that 29% of the MFIs had a staff population of between 50 and 249 (medium-sized), while 43% of the MFIs represent employment level of 250 and above (Large enterprises). 14% were micro-enterprises and another 14% small-scale enterprises had employment levels of 10 to 49, and 10 and below, respectively.

Table 4.2.4   Government shareholding

Variable	Frequency	Percent	Valid Percent
Yes	2	14.3%	16.7%
No	10	71.4%	83.3%
Total	12	85.7%	100.0%
No response	2	14.3%	
	14	100.0%	

83.3% did not have any Government shareholding. While 16.7% had some government control; 2 did not respond

4.3 Evaluation of the performance measures used by Microfinance Institutions

Table 4.3.1   Extent of usage of given financial measures

Financial measures	N	5 Point Likert scale mean score	Std. Dev.
Cash flow	13	3.77	1.589
Current ratio	13	4.08	1.553
Quick ratio	13	3.85	1.625
Debt equity ratio	13	3.69	1.548
Debt ratio	13	3.85	1.281
Times interest earned	13	3.85	1.345
Dividend per share	11	2.00	1.732
Earnings per share	11	2.00	1.732
Earnings yield	10	1.70	1.494
Market book value per share	9	1.44	1.014
Net profit margin	13	3.69	1.888
Price-earning ratio	10	2.60	2.066
Retention ration	9	2.33	2.000
Return on capital employed	12	3.67	1.303
Return on investments	12	4.42	1.240

Return on Investment (ROI), current ratio, quick ratio, debt ratio, cashflow, debt-equity ratio (D-E ratio), net profit margin, return on capital employed (ROCE) and times interest earned all had means that averaged 4.00. Market book value per share, earnings yield, dividends per share (DPS), earnings per share (EPS) and retention ratio all had means that averaged around 2.00.

Table 4.3.2 below shows how the firms rate on the given financial measures. Current ratio and ROI averaged around 4.00. Cashflow ratio, net profit margin, quick ratio, times interest earned, ROCE, debt ratio, EPS, retention ratio and D-E ratio all rounded off to 3.00.

Table 4.3.2 How the firms rate on the below financial measures

Variables	N	5 Point Likert scale mean score	Std. Dev.
Cash flow ratio	13	3.46	1.266
Current ratio	13	3.77	1.166
Quick ratio	13	3.38	1.387
Debt equity ratio	6	2.67	1.862
Debt ratio	6	2.83	1.835
Times interest earned	7	3.29	1.704
Dividend per share	5	2.40	1.949
Earnings per share	9	2.78	1.481
Earnings yield	4	1.50	1.000
Market book value per share	3	1.33	.577
Net profit margin	7	3.43	1.512
Price-earnings ration	3	2.33	1.528
Retention ration	4	2.75	1.500
Return on capital employed	7	3.29	1.113
Return on investments	8	3.50	1.414

Table 4.3.3 Extent of usage of the given non-financial measures

Non-financial measures	N	5 Point Likert scale mean score	SD
Credit decision cycle time	13	4.15	1.144
Loan processing cycle time	12	3.83	1.115
Rate of new product dev. (from need recog to market delivery)	13	3.38	1.325
Staff productivity (output per labour hour)	12	3.75	1.288
Transaction execution timeliness	13	4.00	1.155
Product design quality (how well offering meets expectations)	10	3.60	1.075
Rate of incremental innovation (continuous improvement)	11	3.73	.905
Reduction of defects in work (quest for zero defects)	11	3.91	.701
Transaction execution accuracy	11	4.09	.831

Rate of new product development had a mean that rounded off to 3. Credit decision cycle time, transaction execution accuracy and timeliness, quest for zero defects, loan processing cycle time, staff productivity and product design quality had means near 4.00.

Table 4.3.4 below shows that service cycle time, training, compliance with service level agreements, job rotation and complaint resolution and skills development had means on either side of 4.00.

Table 4.3.4   Extent of usage of the given non-financial measures

Non-financial measures	N	5 Point Likert scale mean score	Std. Dev.
Achievement awards (non- financial)	14	3.14	1.099
Employee satisfaction survey	14	3.36	1.151
Job rotation and satisfaction	14	3.71	.994
Performance based financial rewards	14	3.79	1.051
Skills development	14	3.64	.929
Training for added performance	14	4.07	.917
Complaint resolution cycle time	14	3.71	1.069
Waiting time to receive service	14	4.14	.770
Conformance to service level agreement contracts	14	3.93	.829

Table 4.3.5   How firms rated on below non-financial measures

Non-financial measures	N	5 Point Likert scale mean score	SD
Credit decision cycle	13	3.69	.855
Loan processing cycle time	14	3.86	.864
Rate of new product dev. (from need recog to market delivery)	13	3.85	.689
Staff productivity (output per labour hour)	13	4.00	.913
Transaction execution timeliness	12	3.75	1.055
Product design quality (how well offering meets expectations)	12	3.67	.888
Rate of incremental innovation (continuous improvement)	12	3.33	.888
Reduction of defects in work (quest for zero defects)	12	3.75	1.055
Transaction execution accuracy	13	4.31	.751

Rate of new product development, credit decision cycle time, transaction execution accuracy and timeliness, quest for zero defects, loan processing cycle time, staff productivity and product design quality had means that rounded off to 4.00. Only rate off incremental innovation rounded off to 3.00. Most standard deviations were below 1.000 indicating low variability of individual scores.

Table 4.3.6 below shows that service cycle time, training, compliance with service level agreements, job rotation, employee satisfaction survey and complaint resolution and skills development had means on either side of 4.00. Job rotation and satisfaction, training, financial rewards and achievement awards averaged 3.00.

Table 4.3.6   How firms rated on below non-financial measures

Non-financial measures	N	5 Point Likert scale mean score	Std. Dev.
Achievement awards (non-financial)	13	3.15	1.214
Employee satisfaction survey	13	3.62	.870
Job rotation and satisfaction	13	3.46	.877
Performance based financial rewards	12	3.42	.793
Skills development	12	3.50	.674
Training for added performance	11	3.45	.688
Complaint resolution cycle time	13	3.85	.987
Waiting time to receive service	13	4.15	.801
Conformance to service level agreement contracts	12	4.17	.937

4.4   An Evaluation of performance of MFIs

Profitability Data

The second part of the evaluation of the performance of MFIs was a ratio analysis of secondary data obtained from the MFIs financial statements for the period from year 2000 to year 2004. This is outlined below.

Figure 4.4.1   **Return On Investments (ROI).**
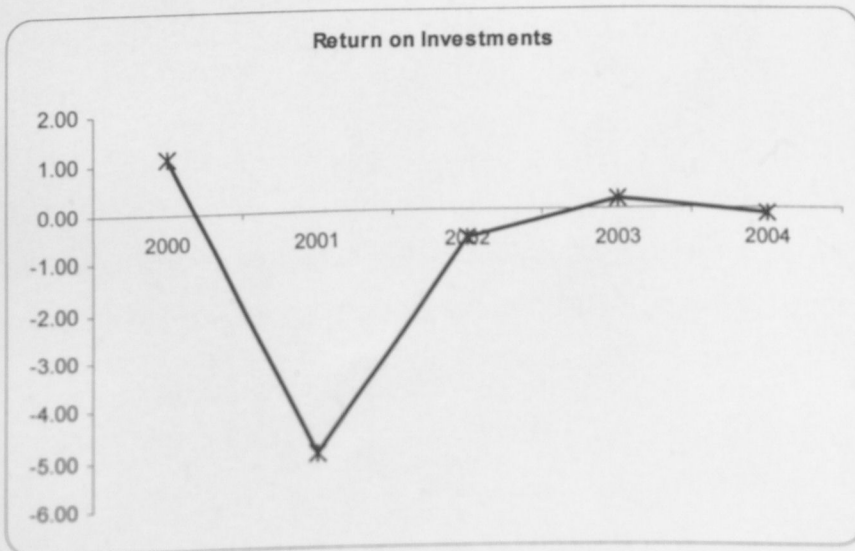
Return on Investment showed a very sharp deep fall between the years 2000 and 2001. However, it subsequently showed some equal magnitude of recovery from 2001 to 2002 and later. In last two years, from 2002 to 2004, ROI increased at a very minimal and eventually on declining rate.

Figure 4.4.2   Trend analysis of the Return on Capital Employed (ROCE) from secondary data from year 2000 to year 2004.
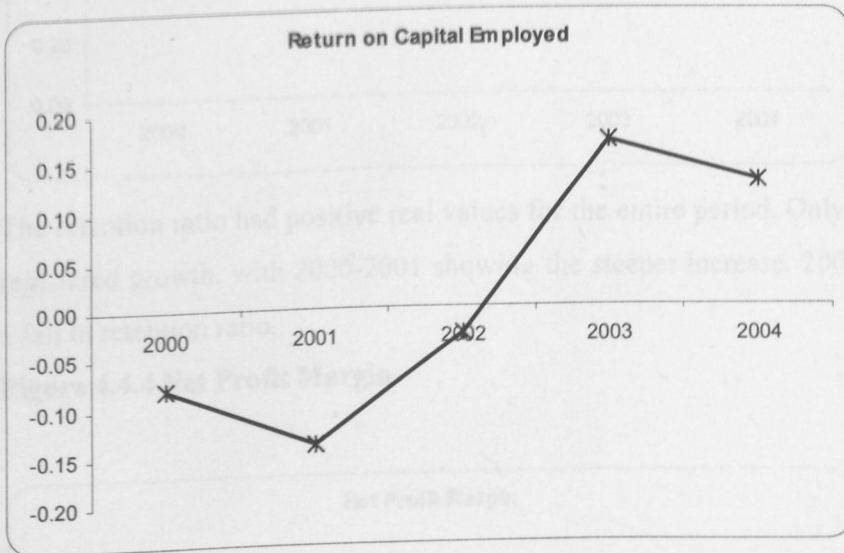
ROCE has negative values from 2000 to 2002 and positive from 2002 to 2004. 2000-2001 and 2003 to 2004 show decreasing ROCE while 2001-2003 is increasing, with 2002-2003 recording a greater increase than 2001-2002.

Figure 4.4.3 Retention Ratio
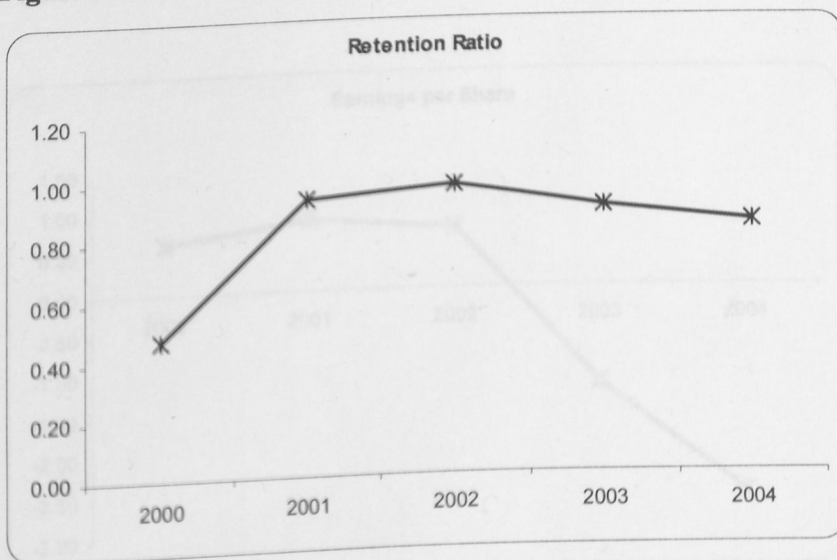
The retention ratio had positive real values for the entire period. Only 2000-2002 registered growth, with 2000-2001 showing the steeper increase. 2002-2004 had a fall in retention ratio.

Figure 4.4.4 Net Profit Margin
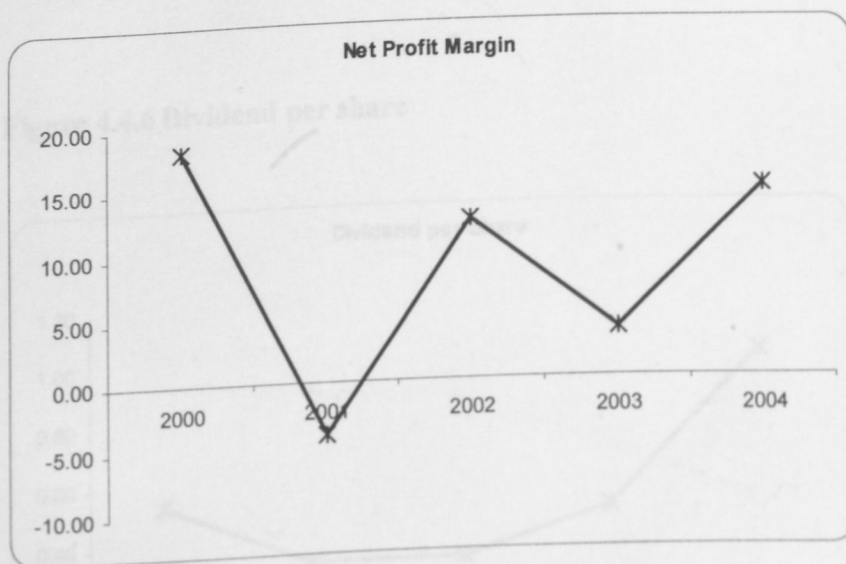
Net Profit Margin registered high variability throughout the period. 2000-2001 and 2002-2003 registered decreases whilst 2001-2002 and 2003-2004, increased.

Figure 4.4.5 Earnings per Share

Earnings per Share
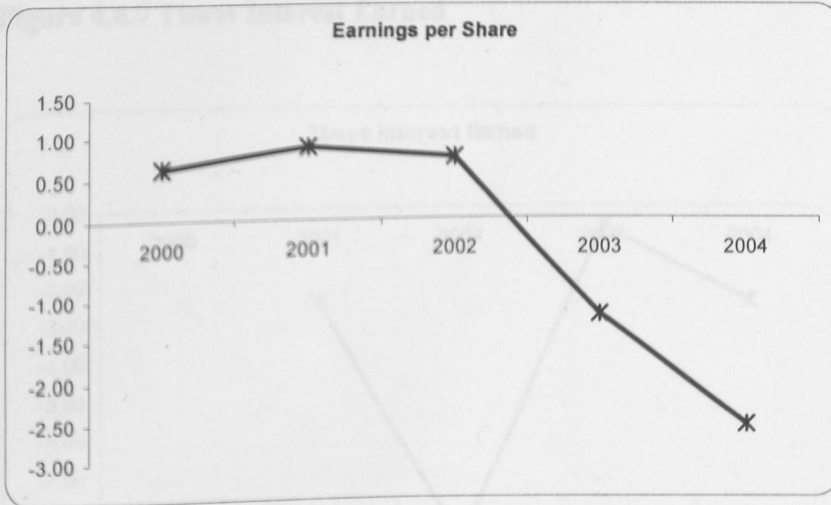
This showed a dismal performance, with a steep decline towards the second half of the period being registered.

Figure 4.4.6 Dividend per share

Dividend per Share
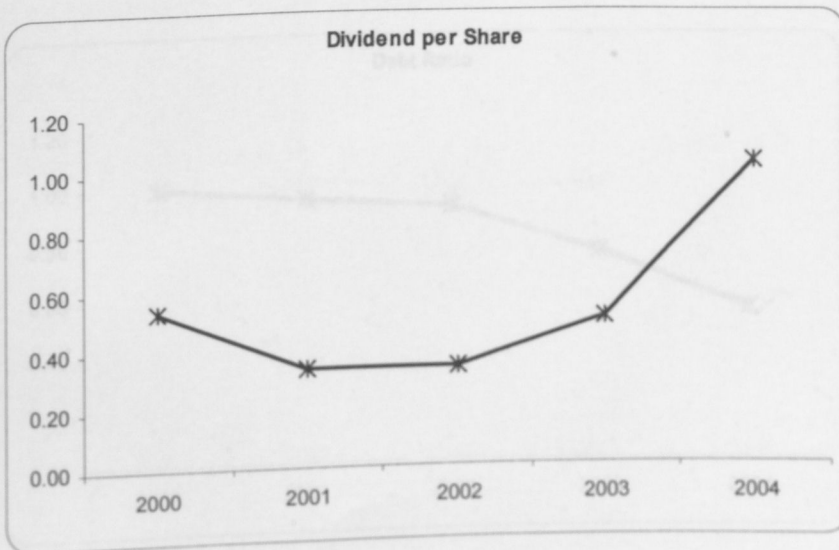
Trend analysis revealed growth in DPS for the second half of the period under investigation and a marked decrease in the first half.

Leverage Ratios

Figure 4.4.7 Times Interest Earned
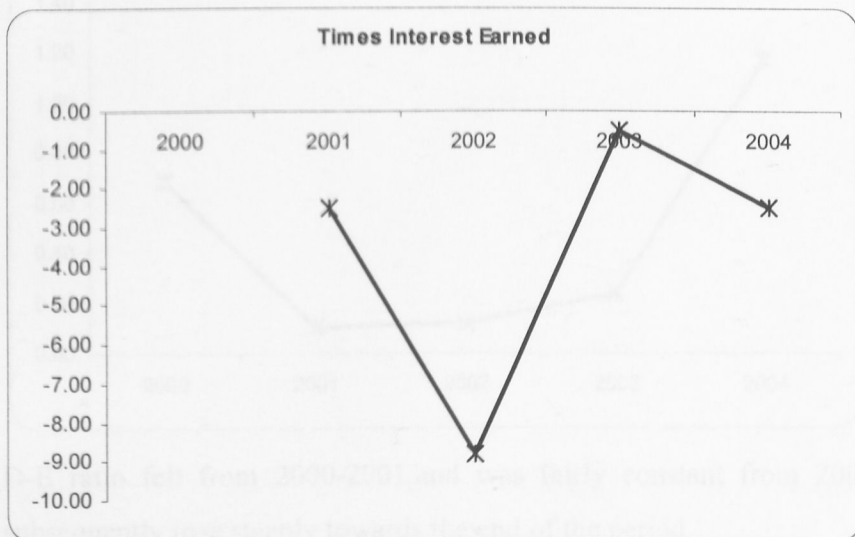
This ratio showed a negative trend throughout the period under investigation; however 2002-2003 registered an increase in interest cover.

Figure 4.4.8 Debt ratio
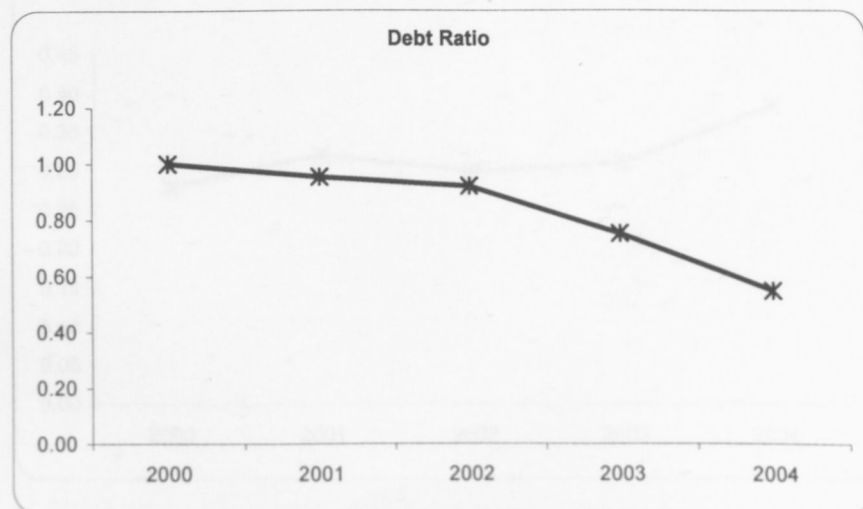
Values for this ratio registered continuous decrease throughout.

Figure 4.4.9 Debt-Equity (D-E) ratio
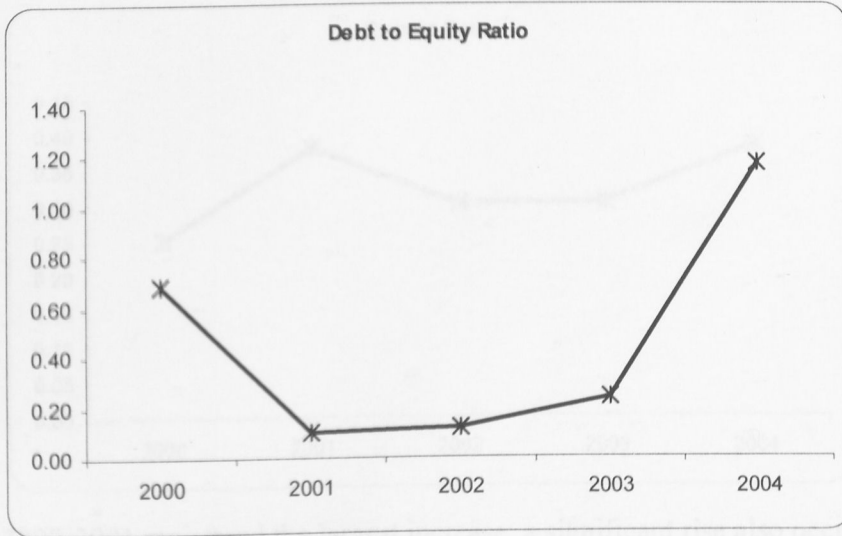
D-E ratio fell from 2000-2001,and was fairly constant from 2001-2003 and subsequently rose steeply towards the end of the period.

Liquidity Ratio

Figure 4.3.10   Quick Ratio
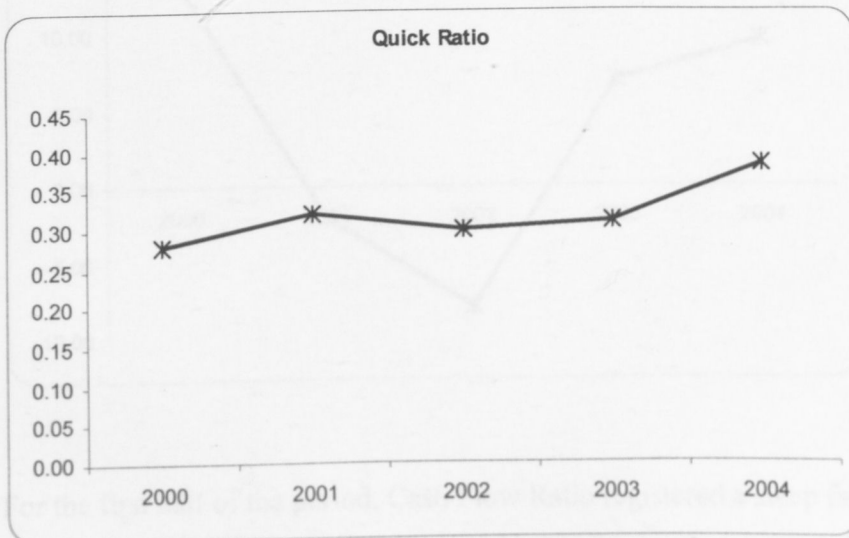
Fluctuated marginally throughout the period under investigation but did not register significant change

Figure 4.4.11   Current Ratio
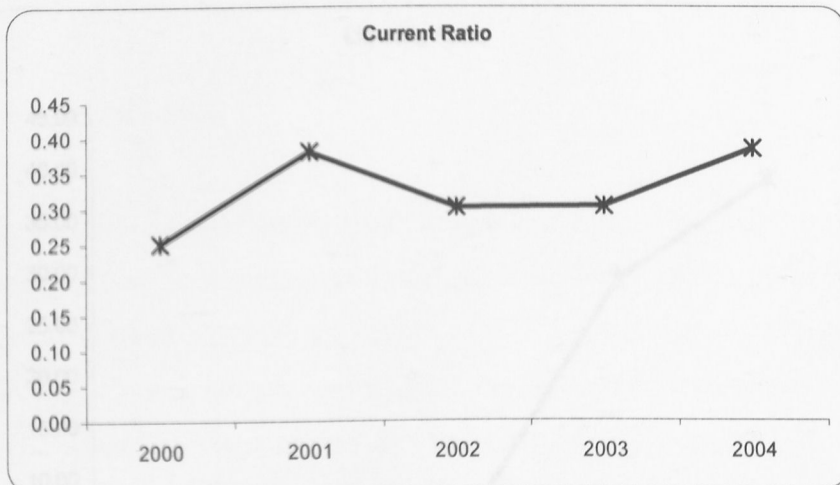
2000-2001 registered the largest increase; a significant rise also occurred from 2003-2004. Net current ratio for the period did not show marked influence

Figure 4.4.12   Cash flow ratio
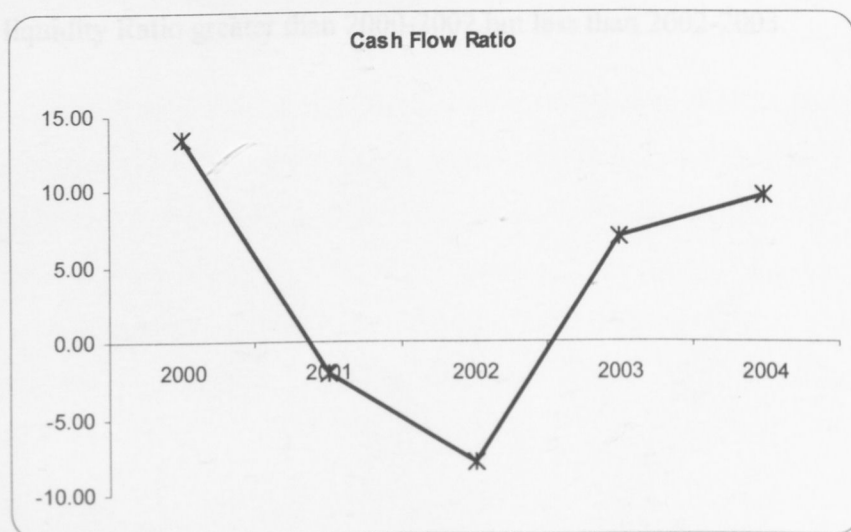
For the first half of the period, Cash Flow Ratio registered a steep fall followed by an equally marked rise for the second half of the period.

Figure 4.4.13 Overall Liquidity Ratio
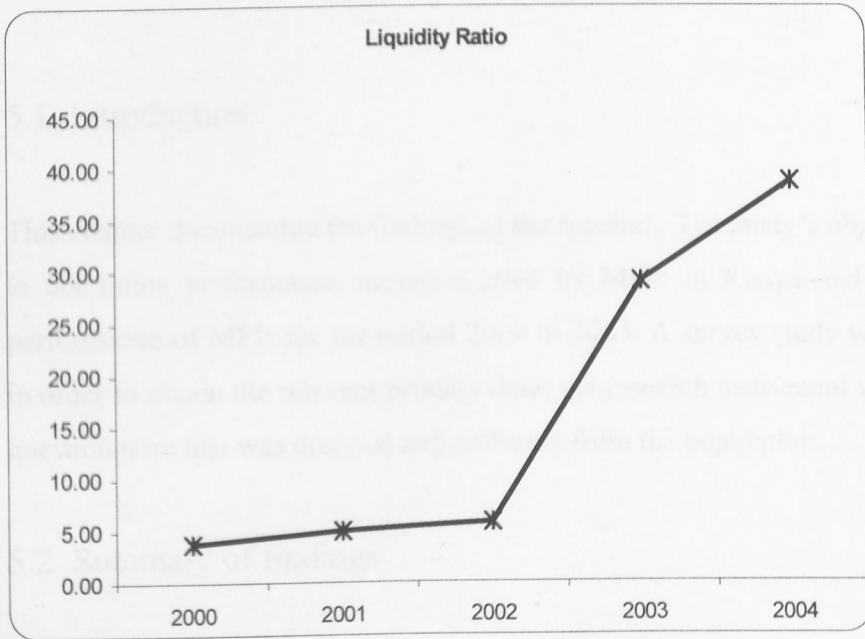
The overall liquidity ratio for MFIs from 2000 to 2002 shows a gradual increase
followed by a steep ascent from 2002 to 2003. 2003 to 2004 has an incremental
liquidity Ratio greater than 2000-2002 but less than 2002-2003.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

This chapter documented the findings of the research. The study's objectives, were to determine performance measures used by MFIs in Kenya and evaluate the performance of MFIs for the period 2000 to 2004. A survey study was conducted in order to obtain the relevant primary data; the research instrument was a 15-page questionnaire that was dropped and collected from the population.

5.2 Summary of findings

In relation to **financial measures**, a summary of the key findings is as follows.

5.2.1 Profitability

Regarding extent of usage, Return on Investments (ROI), Return on capital Employed (ROCE) and Net Profit margin (NPM) were the most widely used of the profitability ratios with a usage that ranked to a high extent. Dividend per Share (DPS) and Earnings Per Share (EPS) were the least popular (a mild extent). ROI is the most popular measure of profitability. The rating on the profitability ratios was good for ROI; Average for Retention ratio, ROCE, NPM and EPS; and poor on DPS.

The ROI figure registered a steep increase from 2001 to 2002, and subsequently increased at a minimal rate possibly due to efficient management, increased debt and maybe under capitalization of the industry. The low ratio from 2000 to 2002 could reflect inefficient management and highly capitalized, conservatively managed businesses. ROCE follows showed steep increase between 2002 and 2004. This was marked by a steep increase in return per shilling of owner's capital invested. From 2000 to 2002 ROCE is negative and actually decreasing from 2000

to 2001. This may be due to the high default rate in microfinance investments then that was curtailed by improved Governance. It is notable that the year 2002 marked a political transition in Kenya where there was a change in Government marked by improved transparency and accountability. Also, this began an era of fighting against corruption that has not spared even the MFI sector.

DPS from 2000 to 2002 were low and decreasing. This correlates well with retained earnings (Retention Ratio) that increased over the same period. This implies a tendency by MFIs to retain profits for reinvestment. Similarly, from 2002 to 2004, as retention ratio falls DPS increases as expected. The positive real economic growth from 2002 to 2004 may have had a hand in improving overall profitability making increased dividend payouts possible. A low EPS may imply high preference dividend payout, which has a prior claim to ordinary stockholders earnings.

NPM was characterized by a high variability throughout the period. This may have reflected the vagaries of the taxation regime and fluctuations in interest payments on debt among other factors. The drastic fall in NPM from 2000 to mid-2001 reflected the high but decreasing debt ratio over the same period. Interest expense was high, but falling over this period. Debt Ratio fell consistently throughout from 2002 to 2004, and from 2002 to 2003, fall in NPM may have been due to taxation issues as well as operational inefficiencies and poor management. This situation reversed from 2003 to 2004 as was seen by the rising NPM.

5.2.2 Leverage Ratios

The ratios under this category, that is the debt ratio, debt-equity ratio and the times interest earned ratio were all used to a high extent (means approximating 4.00). The MFI rated their performance on the three ratios as Average. The proportion of debt in the total assets was seen to decrease throughout the period, more so, after 2002. This implied less borrowing and more equity, grants or subsidies. However, in relation to equity, the proportion of debt employed registered an increase from 2002 to 2004. Bearing in mind that MFI operations also were dependent on grants

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and subsidies from donors-this situation was understandable, as only a small proportion of total assets were constituted of equity funds.

5.2.3 Liquidity

The current ratio and quick ratios were both used to a high extent. MFI rating on performance for these two ratios was good. Observed quick ratios were all less than one. For a service industry such as MFIs this was an adverse situation as it meant that there were insufficient current assets to meet current liabilities upon demand of the latter. Quick ratio however, registered an increase over the period 2000-2004. Current ratio showed the same general trend. These low ratios implied that MFIs may not be able to pay off bills as quickly as they should but could take advantage of interest reductions, grants and subsidies. However, falling liquidity ratios are known to accompany profitable operations. Given the economic recession that characterized the last decade, businesses may have contracted and firms paid off their current liabilities resulting in relatively pushing the liquidity ratios upwards.

5.2.4 Non-financial Measures

The most popular non-financial measure in terms of usage was credit decision cycle time, this was used to a high extent. Transaction execution accuracy and timeliness, zero defects, loan processing cycle time, productivity, continuous improvement and product quality were also widely used. Most of the non-financial measures were used either to a fairly high extent or to a high extent. This reflected the changing business landscape where, to compete effectively, firms must gauge themselves both on financials as well as non-financials. This is because the latter normally captures aspects of performance that may be overlooked by the former e.g. cycle time. These aspects eventually impact on the bottom line e.g. costs and if ignored, may have an adverse impact. The firms rated their performance on the non-financials measures either as good or average. As such, they were keen on using these measures for monitoring and control purposes.

5.3 Conclusions and Policy Recommendation

The study came up with the following conclusions;

1) Majority of the MFIs uses both financial and non-financial measures to gauge their performance, just like other the conventional financial intuitions.

2) Performance of most of the MFIs showed a positive trend between the years 2002 and 2004. This could be explained with investors' confidence in the country after change of guard in government and enthusiasm that Kenyans had from the new government.

3) Microfinance has a sector can play greater role in the economic development and government should come up with clear legal framework to enhance its growth

4) MFIs need to have sound management information systems because accurate information will facilitate them to make informed decisions. Most of the MFIs visited did not exhibit this.

5) There is general feeling from MFIs that government has been doing very little to support them.

Generally, despite the challenges the industry is making difference to improve for the poor and SMEs. MFIs have an edge over their formal counterparts because of their value added lending. It is important to note that a well-defined objective and a target group are necessary to facilitate measurement of impact of MFIs performance in the long run.

5.4 Limitations of the Study

Some of the firms enlisted for the study never agreed to participate. Out of 22 registered MFIs with AMFI (K) as at 2004 only 14 MFIs responded; this meant that the other 8 contributions to the research were missing. If these entire organisations could have participated the content of the study could have been much better. One of the major MFIs, within the period under study Akiba bank,

closed shop. Additionally, not all the ratios had responses e.g. Market Book Value per Share, Earnings Yield and Price to Earnings ratio.

Additional limitations had to do with resources such as time and money. More time and financial resources were required to access and review the otherwise very scattered literature, which would have further enhanced the quality of the study. These constraints made it possible to only confine my study within Nairobi and its immediate environs.

Lack of strict regulation of the sector also made it difficult to approach the study from a defined perspective, as MFIs use different financial and accounting standards for financial reporting.

5.5   Recommendation for further research

Performance of the MFIs is a function of among other things, management efficiency regarding planning, technology strategy and so on. Internal factors could be assessed in relation to performance to determine how they influence it. These can be performance as a function of strategic planning and IT strategy as well as externalities such as the political climate.

With implementation of the pending Microfinance bill in parliament, I would suggest that further study to be carried out on the same to find out what the new changes in sector would have contributed to the performance of the MFIs.

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Appendix 1

Complementary Letter to the Respondents

University of Nairobi

School of Business

P.O. Box 30197

Nairobi, Kenya

Date: 24 November 2006

Telephone: +254 (020) 732160

Telegrams: "Varsity", Nairobi

Telex: 22095 Varsity

==

To Whom It May Concern

The bearer of this letter: _____

Registration Number: _____ Telephone: _____

is a Master of Business Administration (MBA) student at the University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the interviewed organization(s) on request.

Thank you,

The Co-ordinator, MBA program

I

Appendix 2

Questionnaire

Part 1

1. Name of your Organization (optional) _____

2. Indicate the answer that best represents the ownership composition of your company.

   [ ]   Local;   [ ]   Foreign;

   [ ]   Part Local/Part Foreign;   [ ] Government

3. Kindly indicate whether your company is:

   [ ]   Private owned;   [ ]   Part private/part public

   [ ]   Public owned;   [ ]   Parastatal

4. Indicate below the best representation of your company's size in terms of number of staff.

   [ ] Below 10;   [ ] 10-49;

   [ ] 50-249;   [ ] 250 and above

5. Do you have any Government shareholding in your firm?

   [ ]   Yes   ;   [ ]   No

Part 2

6. On a scale of **1** to **5** where:

1 = no extent at all; 2 = a mild extent; 3 = a fairly high extent;

4= a high extent; 5 =a great extent,

Indicate the extent to which the financial measures below are used in your company for performance measurement over the last 5 years (2000-2004).

Extent

Type	Ratios	1	2	3	4	5
Liquidity ratios						
	Cash flow ratio					
	Current ratio					
	Quick ratio					
Leverage ratios						
	Debt equity ratio					
	Debt ratio					
	Times interest earned					
Profitability ratios						
	Dividend per share					
	Earnings per share					
	Earnings yield					
	Market book value per share					
	Net profit margin					
	Price-Earnings ratio					
	Retention ratio					
	Return on capital employed					
	Return on investments					

7. On a scale of 1 to 5 where:

1=Very poor;   2=Poor;   3=Average;
4=Good;   5=Excellent

indicate in the table below, your opinion of how your company rates on the given financial performance measures over the last 5 years (2000-2004).

Type	Ratios	1	2	3	4	5
Liquidity ratios						
	Cash flow ratio					
	Current ratio					
	Quick ratio					
Leverage ratios						
	Debt equity ratio					
	Debt ratio					
	Times interest earned					
Profitability ratios						
	Dividend per share					
	Earnings per share					
	Earnings yield					
	Market book value per share					
	Net profit margin					
	Price-Earnings ratio					
	Retention ratio					
	Return on capital employed					
	Return on investments					

IV

8. On a scale of **1** to **5** where:

1=Very poor;   2=Poor;   3=Average;

4=Good;   5=Excellent

Indicate your opinion of how your company rates on any other measures not mentioned above over the last 5 years (2000-2004).

Type	Ratios	1	2	3	4	5
Liquidity ratios						
Leverage ratios						
Profitability ratios						
Other:						

9. On a scale of 1 to 5 where:

1 = no extent at all; 2 = a mild extent; 3 = a fairly high extent;

4 = a high extent; 5 =a great extent,

indicate the extent to which the non-financial measures below are used in your company for purposes of performance measurement over the last five years (2000-2004).

Extent

Base	Parameters	1	2	3	4	5
Time						
	Credit decision cycle time					
	Loan processing cycle time					
	Rate of new product development (from need recognition to market delivery)					
	Staff productivity (output per labour hour)					
	Transaction execution timeliness					
Quality						
	Product design quality (how well offering meets customer expectations)					
	Rate of incremental innovation (continuous improvement)					
	Reduction of defects in work (quest for zero defects)					
	Transaction execution accuracy					

10. On a scale of 1 to 5 where:

1 = no extent at all; 2 = a mild extent; 3 = a fairly high extent;

4 = a high extent; 5 =a great extent,

indicate the extent to which the non-financial measures below are used in your company for purposes of performance measurement over the last five years (2000-2004).

Extent

Base	Parameters	1	2	3	4	5
Human resource utilization						
	Achievement awards (non-financial)					
	Employee satisfaction surveys					
	Job rotation & satisfaction					
	Performance based financial rewards					
	Skills development					
	Training for added performance					
Customer Service						
	Complaint resolution cycle time					
	Waiting time to receive service					
	Conformance to service level agreement contracts					

11. On a scale of 1 to 5 where:

1=Very poor;   2=Poor;   3=Average;

4=Good;   5=Excellent

indicate in the table below, your opinion of how your company rates on the given non-financial performance measures over the last 5 years (2000-2004).

Base	Parameters	1	2	3	4	5
Time						
	Credit decision cycle time					
	Loan processing cycle time					
	Rate of new product development (from need recognition to market delivery)					
	Staff productivity (output per labour hour)					
	Transaction execution timeliness					
Quality						
	Product design quality (how well offering meets customer expectations)					
	Rate of incremental innovation (continuous improvement)					
	Reduction of defects in work (quest for zero defects)					
	Transaction execution accuracy					

12. On a scale of 1 to 5 where:

1=Very poor;   2=Poor;   3=Average;

4=Good;   5=Excellent

indicate in the table below, your opinion of how your company rates on the given non-financial performance measures over the last 5 years (2000-2004).

Base	Parameters	1	2	3	4	5
Human resource utilization						
	Achievement awards (non-financial)					
	Employee satisfaction surveys					
	Job rotation & satisfaction					
	Performance based financial rewards					
	Skills development					
	Training for added performance					
Customer Service						
	Complaint resolution cycle time					
	Waiting time to receive service					
	Conformance to service level agreement contracts					

13. On a scale of 1 to 5 where:

1=Very poor; 2=Poor; 3=Average;

4=Good; 5=Excellent

Indicate in the table below, any other non-financial measure and your opinion of how your company rates on these measures over the last 5 years (2000-2004).

Base	Parameters	1	2	3	4	5

X

Appendix 3

Secondary Data Collection Forms

14. Purpose of this form is to collect secondary data regarding the various financial measures of performance over the five-year period from 2000 to 2004 from the company's financial reports.

		Years				
Type	Ratios	2000	2001	2002	2003	2004
Liquidity ratios						
	Cash flow ratio					
	Current ratio					
	Quick ratio					
Leverage ratios						
	Debt equity ratio					
	Debt ratio					
	Times interest earned					
Profitability ratios						
	Dividend per share					
	Earnings per share					
	Earnings yield					
	Market book value per share					
	Net profit margin					
	Price-Earnings ratio					
	Retention ratio					
	Return on capital employed					
	Return on investments					

15. This secondary data form will be used to capture any other financial measures of performance that are MFI specific and which have not been included in question 7 above

Years

Type	Ratios	2000	2001	2002	2003	2004
Liquidity ratios						
Leverage ratios						
Profitability ratios						
Efficiency ratios						

16. The form below attempts to capture data regarding the non-financial measures of performance shown over a five year period from year 2000 to year 2004; kindly fill in the requested information regarding the various non-financial indicators.

Years

Base	Parameters	2000	2001	2002	2003	2004
Time						
	Credit decision cycle time					
	Loan processing cycle time					
	Rate of new product development (from need recognition to market delivery)					
	Staff productivity (output per labour hour)					
	Transaction execution timeliness					
Quality						
	Product design quality (how well offering meets customer expectations)					
	Rate of incremental innovation (continuous improvement)					
	Reduction of defects in work (quest for zero defects)					
	Transaction execution accuracy					

17. The form below attempts to capture data regarding the non-financial measures of performance shown over a five year period from year 2000 to year 2004; kindly fill in the requested information regarding the various non-financial indicators.

<div align="right">Years</div>

Dimensions	Parameters	2000	2001	2002	2003	2004
Human resource utilization						
	Achievement awards (non-financial)					
	Employee satisfaction surveys					
	Job rotation & satisfaction					
	Performance based financial rewards					
	Skills development					
	Training for added performance					
Customer Service						
	Complaint resolution cycle time					
	Waiting time to receive service					
	Conformance to service level agreement contracts					

18. The form below attempts to capture data regarding the non-financial measures of performance shown over a five year period from year 2000 to year 2004 that have not been covered in questions 9 and 10 above; kindly fill in the requested information regarding the various non-financial indicators.

Dimensions	Parameters	Years				
		2000	2001	2002	2003	2004
Time						
Quality						
Human resource utilization						
Customer Service						

Appendix 4

List of Microfinance Institutions Registered under AMFI as at 01st June 2006 (Source: AMFI Headquarters)

Name	Address (P. O. Box)	Tel:	Location
AAR Credit Services	41766, GPO	2715319	Nairobi
AgaKhan Foundation Microcredit Programme	13149-00100, NRB	4451349-8	Mpaka Plaza Westlands, 3rd floor
BIMAS	2299, EMBU	068-31645/573	BIMAS Complex, Embu
Co-operative Bank	48231-00100, NRB	32076210	Co-operative Bank Hse
Crossbridge Credit Ltd	10208, NRB	318882/241226	Rehani Hse, 8th Flr, Kenyatta Ave
ECLOF	34889, NRB	3745055	First Insurance Plaza, Muthithi Rd
Elite Microfinance	2111, NRB	041-5486771/ 0720735514	Mombasa
Equity Bank	75104-00200, NRB	27366620/17	NHIF BLDG, Upperhill
Faulu Kenya	60240-00200, NRB	3877290/2184/4	Ngong Lane, Off Ngong Rd
Jamii Bora	2704-00202, NRB	3875327	Kayahwe Rd
Jitegemea Credit Scheme	46514, NRB	535866/552169	KCB Plaza Jogoo Rd
Jitegemee Trust	21768-00505, NRB	3874693/2998	Lenana Rd, Roshan Maer Place
KADET	1676-00200, NRB	2731954/87	Capital Hill Towers
Kenya Gatsby Trust	44817-00100, NRB	2720711/703/571 0722201233/ 0735337661	ACK Garden Hse, 6th Flr, Wing D

Name	Address (P. O. Box)	Tel:	Location
Kenya Post office Savings Bank	30311-00100, NRB	229551-6	Post Bank House, Banda Strt
Kenya Women Finance Trust	55919, NRB	2712903/823	Muchai Drive, off Ngong Rd
K-Rep Bank Ltd	25363-00603, NRB	3871511	Kawangware
K-Rep Development Agency	39312, NRB	4343495/3	Nxt to Kileleshwa Police Station
Micro Kenya Ltd	52926, NRB	2727373/1745	Off Lenana Rd
Millenia Multipurpose Credit Society	12056, NAKURU	051-2214943	NAKURU
OIKO Credit	67181, NRB	4445845/1442	AACC Bldg, 4th Flr, WaiyakiWay
Plan International-Central/Nyaza		3870216/4987/ 3862593	North Star Bldg, Lenana rd
Pride Ltd	63486, NRB	721819370	KCB Bldg, 2nd Flr, Jogoo Rd
SISDO	76622-00508, NRB	3870280	Adams Arcade
SMEP	64063, NRB	3870162/3861927	Kirichwa Rd, Off Argwings Kodhek Rd
SNV	30776-00100, NRB	3870960/8	Wood gardens, Off Wood Ave, Kilimani
SUNLINK	13874-00800, NRB	4450750/1	3rd Floor, Woodvale place, Woodvale Groove
WEDCO	6711-40103, KiSUMU	057-2021211/34849 0722205171/ 0733609996	Oginga Odinga Strt, Opp. Swan Center
WEEC	486, KISERIAN	045-25226	Kiserian, Off. Magadi Rd
Window Development Fund	5910, NRB	3878140	King'ara Rd, Nxt to OAIC Offices
Yehu Enterprises Support Services	82120, NRB	041-224406	Kwale District