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MFI Management Functions and their Influence in Transforming Micro, Small and Medium Enterprises in Kenya

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ABSTRACT

In the recent past, micro-financing has gained prominence among poor and developing countries of Asia, Latin America, Eastern Europe and Africa as a financial tool and solution to the challenges faced by micro, small and medium sized enterprises. The growth and prominence of micro-financing has been propelled and influenced by the intensive search for solutions to poverty alleviation. The general objective of this study was to establish the influence of Microfinance Institutions in transforming micro, small and medium enterprises in Kenya. This study relied on a positivist research philosophy and used a cross-sectional research design, in the form of a survey. The target population of the study was 45 micro finance institutions registered as members of AMFI Kenya. A sample of 135 respondents was selected using stratified random sampling, 3 from each MFI. Respondents were grouped into three strata; top management, middle management and supervisory employees. Pilot testing was done equivalent to 10% of the sample size (14 respondents) from MFIs other than those sampled in the study. The study used primary data that was collected using questionnaires**.** Data was analyzed and presented using the Statistical Package for Social Sciences (SPSS). In addition, spreadsheets were used to supplement SPSS by presenting results in the form of bar graphs, pie charts and frequency tables. Information was sorted, coded and input into the statistical package for social sciences (SPSS) for production of graphs, tables, descriptive statistics and inferential statistics. The study revealed that established instituting proper managerial structures and processes in MFI operations is critical in transformative influencing the operations of MSMEs. It clearly came out from this study that effective management structures and processes permit institutions to attenuate and amplify talent that is critical for organizational stability and support to their stakeholders, including the MSMEs. The study also revealed that establishing strong communications systems within MFI organizations and with their clients is critical for the transformation of the MSMEs. These findings will significantly benefit policy makers. MFI finance managers, credit officers, as well as officials in leadership and governance to develop effective policy to regulate the operations of MFIs in a bid to transform the ever increasing number of MSMEs in Kenya. Awareness of challenges and suggested solutions will enable government and policy institutions to optimize operations of micro, small and medium enterprises. These results will also benefit scholars, researchers and students in terms of opening up a new frontier of information that will enhance their understanding on this important and steadily growing thematic area of the operations of the MSMEs and micro-financing in Kenya, as well as suggestions for future studies. The study makes two recommendations for further studies.

Key Words: Micro, Small and Medium Enterprises; Financial Performance; Transformation and Viability

INTRODUCTION

Micro-finance institutions are considered to be making a significant contribution in the provision of financial and non financial services to the Micro, small and medium enterprises (MSMEs) sector. This sector is increasingly seen as playing an important role in the economies of many countries. Governments throughout the world focus on the development of the MSME sector to promote economic growth. In South Africa, MSMEs contribute 56% of private sector employment and 36% of the gross domestic product (Ntsika, 2002). South Africa, like the rest of Sub-Sub Saharan Africa suffers from high unemployment with an official estimate of approximately 24.5% of the economically active population unemployed as published in the Statistics South Africa's Quarterly Labour Force Survey of 2009. Mahadea (2008) argued that the contribution of the MSME sector cannot be sustained without the creation and support of new MSMEs. The survival rate of SMEs (small and medium enterprises) is relatively low, according to Ligthelm & Cant (2002). The authors argue that less than half of newly established businesses survive beyond five years. This is not only true for South Africa, but also a common phenomenon in the rest of the world. In the South African economy, more than one million jobs have been shed since 1990, bringing the unemployment rate, by February 2002, at 28 percent. The SME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries (Sunter, 2000). The important contribution that SMEs can make to employment and income generation is recognized around the world, and in particular in South Africa.

According to Brink, Cant and Ligthelm (2003), it is estimated that the failure rate of micro, small, medium and micro enterprises (MSMEs) is between 70% and 80%. In a paper presented at the 16th annual conference on Small Enterprise Association in Australia and New Zealand, Brink, Cant and Ligthelm (2003) observed that millions of Rands (local South African currency) are being lost on business ventures because of essentially avoidable mistakes and problems. They contend that often the ideas are good and the people behind them are competent, but "they do not have a clue of how to run a business" and have no underlying appreciation of business fundamentals. These scholars state that the problems encountered by small businesses are numerous and can be described amongst others as being environmental, financial or managerial in nature.

Micro, Small and Medium Enterprises (MSMESs) across Africa face many and varied challenges to their growth and operations (Wanjohi, 2009; UNIDO, 2002). These challenges include: inadequate office space, poor infrastructures such as electricity and water services, expensive internet connectivity, inflexible lease terms and poor human skills. The authors contend most of the MSMEs are also located in un-unattractive locations, thus projecting a negative image to potential customers. A study by Wanjohi (2009) and Ndagu and Obuobi (2010) revealed that often such organizations operate from garage floors of a house, or are located in a crowded market area. Image is important for an aspiring MSME (Njagi, 2011) that is trying to establish its credibility, especially one that has just a few employees and is seeking to get service contracts from larger corporations.

Ryne and Otero (2006) argue that most MSMEs are launched by aspiring entrepreneurs who have had no previous experience, possibly even little exposure to a mature corporate environment. These scholars further argue that the enterprises are not planned appropriately, markets are not assessed, products not commercialized, marketing not adequate or imaginative, and good corporate governance frequently lacking. Other challenges faced by MSMEs which affect their growth and profitability, thus diminishing their ability to contribute effectively to sustainable development include: a weak and underdeveloped business environment, complex entry regulations, tedious red tape registration and certification processes, high incidences of corruption, lack of credit, inadequate business skills and infliction of pandemic diseases such as HIV/Aids. These challenges provide few incentives to MSMEs to become (or remain) active in the formal part of the economy There is a major crisis across Africa (Ndagu and Obuobi, 2010; Owualah, 2007; Otero, 1999 and Kereta, 2007) that is also fueled by the nature of a tight labour market and few good opportunities for employment for the annual graduating students where they can watch and learn best practices. These authors contend that individual entrepreneurs have: little access to financial products and services, little training in project management and scheduling, and are unaware of basic business practices like feasibility studies. For these and many other reasons discussed above, in many of these countries, a large share of MSMEs is not participating in the formal economic development.

The key concern of micro-financing institutions is the provision of high-quality and affordable financial and non financial services such as savings, credit, insurance, payments, and money transfers to low-income people to enable them finance income-generating activities, build assets, stabilize consumption, and protect themselves against risks (Banerjee, Duflo, Glennerster and Kinnan, 2009). Micro-financing is not a new concept; it dates back to the 19th century when money lenders were informally performing the role of the current banking institutions. The informal financial institutions which included village banks, cooperative credit unions, and social venture capital funds helped provide the poor with savings and credit services to finance their micro, small and medium enterprises. They mobilized savings based on established and accepted procedures by the low income clients (Coleman, 2006). In the last two decades, there has been growing enthusiasm for promoting micro-financing as a strategy for poverty alleviation (Coleamn, 2006; Hermes & Lensik, 2011; Yunus, 2007). These authors furthers contend that the micro-finance sector has blossomed in many countries, leading to multiple financial services firms serving the needs of micro entrepreneurs and poor households and also led to the formation of the Grameen Bank in Bangladesh in 1983. Micro financing has gained prominence (Sengupta & Aubuchon, 2008) among poor and developing countries of Asia, Latin America, Eastern Europe and Africa. According to these scholars, the growth and prominence of micro-financing has been propelled and influenced by the intensive search for solutions to poverty alleviation. Micro-financing is now accepted to be the provision of a full range of financial services which include: savings, credit, micro leasing and micro insurance to low-income earners (Littlefield, Morduch & Hashemi, 2008).

Bank Rakyat Indonesia (BRI), another flagship of the micro-financing movement in the form of village banking unit system the largest micro-financing institution and state-owned bank in developing countries was also formed in 1980s It currently serves over 22 million microsavers through autonomously managed micro-banks (Mallick, 2011; Rhyne & Otero, 2006; Otero, 1999). A study by CGAP (2008) revealed that institutions offering micro-finance services in recent years have grown both in outreach and asset base raising safety concerns on such micro-finance operations. Many countries have opted to regulate these operations at varying degrees (CGAP, 2008). The CGAP (2003) defines regulation as binding rules governing the conduct of legal entities and individuals, whether they are adopted by a legislative body or an executive body. Two forms of regulations exist, namely: prudential and non-prudential. Institutions that mobilize deposits threaten the security of the financial sector and pose a risk to depositors hence require prudential regulation (CGAP, 2003). Institutions that meet the prudential regulation are then issued with an operating license to carry out the financial service delivery as per the set rules (CGAP, 2003).

The unmet financial needs and the apparent gap of lack of financial services facing the poor in the world led to establishment of micro financial institutions (MFIs) to meet the market niche of SMEs. Lauer (2008) noted that MFIs arose in the 1980s as a response to doubts and research findings about state delivery of subsidized credit to poor farmers. This was pioneered by the Nobel Prize winner, Prof. Mohammed Yunus with his innovative Grameen Bank of Bangladesh Model. Subsequently, the last two decades have witnessed the mushrooming of MFIs yet the financial needs of SMEs especially agricultural related (farming, agribusiness, livestock) remain unresolved. Nave (2006) reported that the key umbrella MFI organizations in Kenya namely: the Association of Microfinance Institutions (AMFI), in Kenya boasted of 25 MFIs, 4 wholesalers, 59 Financial Services Associations (FSAs) and 40 MFIs respectively by end of 2005, totaling to 128 institutions. Despite the above expansion of the MFIs as an alternative source of finance, SMEs still face the problem of finance. Micro-financing gives people the means to secure finances so as to exploit emerging opportunities and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Khandker, 2005; WB; 2012 & 2013). These improvements are assessed from the perspective of the development and growth of Micro, Small and Medium size Enterprises. Institutions that have opted to operate under prudential regulations are, in most cases, required to transform institutionally so as to comply with set requirements (Sengupta & Aubuchon, 2008). The scholars aver that in most cases this transformation has involved change of legal status, ownership, organizational structures, systems and their delivery channels. This change has led to some of the challenges facing MFIs in transforming micro, small and medium enterprises to viable businesses in Kenya (Njihia, 2005).

Study Problem

Kenya's financial sector has undergone through several reforms since the late 1990s with the aim of improving profitability, efficiency and productivity of commercial Banks and other financial institutions as a platform for supporting MSMEs. Commercial banks had left a substantial gap in service delivery to financial service users particularly low income earners and MSMEs. Microfinance Institutions (MFIs) among other financial institutions stepped in to fill the gap and have registered remarkable growth over the last two decades as the unbanked population expanded and started patronizing their services. The MFIs are viewed predominantly as instruments of social change and their performance is often measured by non-financial parameters. The implementation of the Microfinance Act, 2006 by the Central Bank of Kenya and the SACCO Act 2008 by SASRA, as the regulators of the MFIs and SACCOs, respectively has had a great impact on the operations of the MFIs. To transform micro, small and medium enterprises into viable businesses in the dynamic financial market in Kenya is a huge challenge. The need for steady growth and survival for these institutions by shareholders, government, regulatory authorities and stakeholders has resulted in the expansion of the SACCOs and MFIs in the last 10 years. Much of the literature in this area addresses: the social worth of micro-financing organizations (Bruett, 2005), the impact of village level MFIs (Menkhoff and Rungruxsirivorn, 2011; Kaboski and Townsend, 2005 & 2011), the impact of microcredit on the poor (Karlan and Zinman, 2010), costs and benefits of subsidies in micro-financing and mission drift.

There is evidence (Cull, Demirgüc-Kunt and Morduch,2007), that raising interest rates results in increased profitability for individual based lending MFIs whereas for solidarity based lenders, the reverse is true. The study by Cull et al., (2007) found evidence that raising interest rates leads to improved financial performance and profitability with lower subsidy dependence and higher operational self-sufficiency. Pankaj and Sinha (2010) concluded that most of the best performing firms are following different business models in India. Ahlin & Maio (2011) examined the determinants of performance of MFIs with variables, such as self-sufficiency, borrower growth or loan-size growths estimated by macroeconomic variables as well as macro-institutional factors, such as corruption control. Locally, Njagi (2011) made an investigation of factors affecting performance of micro-finance institutions in Embu district and concluded that the key reasons behind low performance of MFIs included limited financial resources, loan defaults by recipients, poor management information systems and poor research and development. As demonstrated by the cited empirical studies, there have been a number of studies focusing on the performance of MFIs. However, there exists limited empirical information that details out the challenges hindering micro-financing institutions in transforming micro, small and medium enterprises into viable businesses in Kenya, a gap that this study has addressed.

Objectives Of The Study

The general objective of this study was to determine the influence of Microfinance Institutions in transforming Micro, Small and Medium Enterprises in Kenya. Specifically, the study sought to investigate the influence of MFI management functions in transforming Micro, Small and Medium Enterprises in Kenya.

LITERATURE REVIEW

Micro-Financing in Kenya

Micro-financing in East Africa has become a hotbed of innovation in financial services (Njihia, 2005). Kenya is fast catching up with South Africa to become the country with the most comprehensive provision of financial services on the continent (WB, 2012). The WB further notes that the business models of champions such as Equity Bank and M-PESA in Kenya have been studied worldwide as a testimony of innovation (WB, 2012). The Kenyan financial sector is broad and well developed in sub-Saharan Africa. The sector is roughly twice as large as Uganda's and Tanzania's, but all the three countries have tremendous growth potential when compared to developed-country financial sectors (WB, 2012; Njihia, 2005). Kenya has 43 commercial banks and boasts of the best developed micro-financing sector in sub-Saharan Africa. Roughly, three-quarters of the East African micro-financing sector is dominated by Kenya. Kenya is also home to Equity Bank, a former building society considered insolvent in 1993 and is today one of the world’s most admired retail banks. Another notable institution is the Kenya Women Finance Trust (KWFT), Africa’s largest institution targeting women only, with over 250,000 active borrowers and a fast growing number of savers after successful application for a deposit-taking license (WB, 2013). The Key players in the Kenyan Micro-financing sector include Regulated MFIs: Commercial Banks, Non-Bank Financial Institutions (Post Bank) and the to-be-regulated, transforming MFIs under MFI Act; Non-regulated, credit only MFIs financial wholesalers; Insurance companies (micro-insurance providers) and Capacity development institutions (WB, 2012).

Uganda has 24 commercial banks, of which two (Centenary Bank and Equity Bank Uganda) have a micro-financing focus. In addition, the country has five deposit-taking MFIs and a few smaller MFIs. Among the larger financial institutions, only the two mentioned banks and the deposit-taking MFIs are not concentrated in Kampala. The micro-financing sector in Uganda is regulated by the Bank of Uganda. The use of a credit bureau for both positive and negative reporting is mandatory for all major MFIs. Bio-metric data is used for identification, as Uganda does not have a national ID system (WB, 2012). Tanzania has 50 commercial banks, but less than a dozen major MFIs. Unfortunately, the large number of commercial banks does not reflect a high degree of financial inclusion. Most Commercial banks have a narrow, often government and commodity sector-related business focus and do not serve a substantial number of households or businesses. While the MFIs focus on the latter segment, together they still reach a relatively small number of 300,000 active borrowers and 390,000 savers. The leading MFI, with 100,000 active borrowers, is Arusha-based Pride. As the MFIs slowly fill the immense gaps in financial inclusion, new entrants to the market, such as Access Bank, Advans, and Equity Bank bring a new dynamic. In order to access Tanzania’s vast and barely tapped rural areas, more effort to keep pace with the fast evolution in Kenya is needed (IFC, 2013).

Apart from the MFIs discussed previously, semi-formal providers such as savings and credit cooperatives (SACCOs) or informal providers such as savings and credit associations (ROSCAs and ASCAs), unlicensed money lenders, or family and friends thus play an important role, particularly in rural areas. Micro-financing as a financial-sector development pursues the objective of a sound financial sector, consisting of a multitude of formal providers competing for clients from all segments of society. The evolution towards financial inclusion is driven by MFIs who combine the credit cooperatives’ willingness to serve poor people with the commercial banks’ capacity and professionalism. East Africa is one of the world regions where MFIs have proven that they can handle deposits and grow into full-fledged financial providers. In Kenya, the successful transformation of eight credit-only MFIs into deposit-taking MFIs is a strong signal by the sector (Njihia, 2005). The rapid advancement of financial-sector development in East Africa is a powerful testimony to the important role micro-financing continues to play in emerging economies. The financial sector enables the growth of other industries, and its micro-financing segment caters to a large number of self-employed entrepreneurs, small businesses, and low-income households.

Kenya has a population of 38.8 million according to the 2009 population census released in 2010. The gross national income per capita is estimated at US $ 1560 and about 18.1 million (46%) people live below poverty line (WB, 2011). The Agriculture sector contributes 24% to the GDP and another 27% indirectly through linkages with other sectors. An estimated 60% of all the households are engaged in farming activity. The food component constitutes over 50% of the overall inflation, meaning that stable food supply is critical to macroeconomic stability (KIPPRA, 2013). Majority of the population in Kenya live in the rural areas and they are involved in informal activities which includes micro, small and medium enterprises (MSMEs). However, these businesses remain at the micro level with dismal prospects of growth. MSMEs face various challenges which hinder their transformation to viable businesses. Robinson (2006) identified lack of finance as one of the major challenges which the Micro-financing institutions are trying to address. It is therefore expected that the micro-financing industry will play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the Kenyans to grow their MSMEs.

The Kenyan Financial Sector has undergone through numerous challenges and transformations during its relatively short span of its existence. Microfinance Institutions have opted to transform and expand the variety of their financial products to outreach more clients while Co-operative Societies have been noted to depart from traditionally being savings and credit institutions to institutions that offer front office services that have been a preserve of commercial banks and other financial institutions (SASRA, 2011). According to Kenya Union of Savings and Co-operatives, Savings and Co-operative Societies movement in Kenya is billed as the largest in Africa and among the top 10 globally. With over Kshs 230 billion in assets and a savings portfolio estimated at Kshs 190 billion, the SACCO movement in Kenya constitutes a significant proportion, about 20%, of the country's domestic savings (SASRA, 2011).

Innovative forms of micro-financing and progressive government policies, as detailed in the Microfinance Act of 2006 have helped to make Kenya's micro-financing sector one of the most developed in Sub-Saharan Africa. The Microfinance Act of 2006 and the Deposit Taking Institutions Regulations *2*008 set out the legal, regulatory and supervisory framework for the micro-financing industry in Kenya. Among the reasons why MFIs have transformed and diversified into deposit taking institutions is accelerated growth, enhanced profitability, diversification of risk, reduction of tax liability, financial benefits and increased market power (Gaiha & Nandhi, 2006; Dalla Pellegrina, 2011; Besley, 1994). On the other hand, MFIs are developing a variety of customized products and services to outreach more clients and provide financial access to MSMEs. The push for Micro-financing regulation in Kenya has come from the Association of Micro-financing Institution (AMFI), the umbrella body of MFIs in Kenya which has been lobbying for the regulation for the last ten years to gain access to local deposits. Access to local deposits in form of savings is regarded as a cheap source for MFIs for on-lending (Rosengard, Rai, Dondo & Oketch, 2001). With dwindling availability of donor grants and expensive commercial loans, MFIs have found themselves constrained in their expansion plans.

The Kenyan government has been concerned about the need to protect the poor against losses that could be occasioned by unscrupulous operators. The poor are more vulnerable to slip into extreme poverty than the rich. In a span of two years, between 2005 and 2007, Kenya experienced two financial scandals targeting the poor under the pretext of being a micro-financing and savings scheme. This has prompted the central bank to restrict use of the word 'finance' business names to those that are regulated by it. The regulation of micro-financing in Kenya has adopted a three-tier approach: Prudential regulation and supervision for deposit-taking institutions by central bank, non-prudential regulation for credit only by ministry of finance and no regulation for ROSCAs and ASCAs.

MANAGEMENT FUNCTIONS AND THE TRANSFORMATION OF MSMES

Putting up proper managerial structures and processes in organizations is always a necessity during any development processes (Keraro, 2014; Isoe, 2014). However, this necessity is often handled differently when it comes to the public sector due to various competing demands or factors such politics, financial constraints and government bureaucracies. According to Dirk & Achterbergh (2011), Fischer (2006) and Mullins (2010) cited in Keraro (2014) held the view that developing management structures that permit institutions to attenuate and amplify talent is a crucial condition for organizational viability. Keraro contends that modern day clamour for lean management structures derive their justification from the fact that they facilitate faster strategic decision making.

Poor communication is a sign of poor leadership and management. Aaltonen and Ikavalko (2005) stated that the amount of strategic communication in most organizations is large with both written and oral communication being used in form of top down communications. However, a great amount of information does not guarantee understanding and there is still much to be done in the field of communicating strategies. Wang (2004) argues that communication should be two way so that it can provide information to improve understanding and responsibility and to motivate staff. Also, they argue that communication should not be seen as a one-off activity throughout the implementation process. In many cases it is not so and therefore communication still remains a challenge to strategy implementation process.

Functions of management include Planning, Organizing, Staffing, Directing and Controlling. Failure of management to carry out these functions leads to lack of clear understanding of strategy. Before any strategy can be implemented, it must be clearly understood. Clear understanding of a strategy gives purpose to the activities of each employee and allows linking whatever task is at hand to the overall organizational direction. Lack of understanding of a strategy is one of the obstacles of strategy implementation (Aaltonen and Ikavalko, 2005). They point out that many organizational members typically recognize strategic issues as important and also understand their context in generic terms. However, the problem in understanding arises when it comes to applying issues in the day to day decision making. Peters and Pierre (2001) notes that decision making in local authorities setting is a political process. In such a situation, decisions are typically not purely rational but rather incremental, adaptive and predetermined by interactions of political influence and sudden changes in the environment. He further states that strategic planning has to be accomplished in a pluralistic environment where power is distributed among many and varied interest groups. However, there are very few empirical and theoretical studies on factors affecting implementation of performance contract initiatives. This study aims to contribute to filling this gap using both theoretical and empirical approaches.

A report by the WB (2010 & 2012) observed that public servants are working so hard to be sure things are being done right that they hardly have time to decide if they are doing the right things. Though he highlighted a need to have a hands-on approach to issues by council officers, he did not identify a clear formula on how to ensure councils operations are attained. By addressing factors leading to implementation of effective working formula geared to improving delivery of services, performance contracting is very important and should be researched on all aspects as an on-going process. Studies have revealed that the performance of organizations co-relate directly to the leadership styles of the leaders in the organizations. Traditional views have generally indicated that leaders can impact the performance of the organizations they lead (Thomas, 2008). According to Nave (2006) the success or failure of the business depends on the leadership styles employed by the leaders. Van Wart (2006) states that all organizations need leadership to guide organizational operations. Organizations require efficient leaders who are capable of steering people in the right direction to achieve its mission, vision, and to remain faithful to the philosophy and values of the organization. Plowman, Solansky, Beck, and Lekami (2007) reiterate that leaders are the problem solvers who are able to guide the organization through challenges and achieve more through others.

The ability to unite the organization to work towards the organization's goal is the role of an effective leader and it is critical to the organization's success and performance (Stahl, 2007). Great leaders can communicate the organization's future path to a certain group of people effectively and to get them to work as one towards common goals (Buckingham, 2005). Ireland and Hitt (2005) state that leadership is important to an organization's success and business performance especially in the competitive environment in which firms are presently operating. Lack of managerial skills in most MFIs is attributed to poor management. Most empirical evidence suggests that firms with better-educated owners and managers are more efficient (Burki & Terrell, 1998) and tend to grow more quickly (Woodruff, Johnson & McMillan, 1999). Capability can be greatly influenced by a person's intelligence, physical ability and level of education. Though there is little one can do about intelligence and physical ability, a compliant level of education can be achieved with time and proper planning by the management by grooming junior and possible chief executives officers to undertake managerial tasks and mandate.

METHODOLOGY

This study adopted and relied on a positivist research philosophy. A cross-sectional research design in the form of a survey was used in this study. The population of this study comprised of 45 units of analysis which are the micro finance institutions registered by the Association of Micro-financing Institutions of Kenya (AMFI) in Kenya. The target population comprised of top management, middle management and supervisory level employees from the micro financing institutions. Questionnaires were used to collect data from a sample of 135 respondents selected using stratified random sampling.

RESEARCH FINDINGS AND DISCUSSION

Response Rate

The researcher distributed 135 questionnaires from which 108 were duly filled and returned, making a response rate of 80.0%. Nwankwo (2007) poised that survey researches face a challenge of low response rate that rarely goes above 50%. They further suggest that a response rate of 50% and above is satisfactory and represents a good basis for data analysis. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% is good and above 70% is very good. This also concurs with Kothari (2004) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertions; the response rate based on the correctly returned questionnaires and used for analysis of 76% was adequate for proceeding with the study. Table 1 presents the response rate results.

Table 1: Response Rate

Details	Response
Questionnaires distributed	135
Questionnaires returned	108
Questionnaires returned and correctly filled for analysis	102
Response Rate	**76%**

The Transformation Of MSMES

Reliability Test for Transformation of MSMEs

The study carried out a reliability test on the dependent variable, Transformation of MSMEs. The results from this test are summarized in Table 2. The results indicate a Cronbach reliability alpha score of .807, which is higher than the recommended threshold of .7 alpha score.

Table 2: Reliability Test for Transformation of MSMEs

Reliability Statistics

Cronbach's Alpha	N of Items
.807	4

Factor Analysis for Transformation of MSMEs

A factor analysis was carried out to determine how various factors would load on Transformation of MSMEs. The findings summarized in Table 3 shows that all the factors loaded highly on the dependent variable (Transformation of MSMEs) as all of them had scores above the threshold of .4.

Table 3: Factor Analysis on the Dependent Variable (Transformation of MSMEs)

Component Matrix

Research Item	Component
Our assets over the last 5 years enhanced transformation of MSMEs that we support	.821
The products and services we offer helped transform MSMEs of our clients	.801
Our positive Return on Investment (ROI) over the last 5 years has transformed the MSMEs we support	.796
Our MFI has experienced an increased number of transformed MSMEs in the last five (5) years	.779

Extraction Method: Principal Component Analysis

Descriptive Statistics for Transformation of MSMEs

An analysis of the descriptive statistics on the dependent variable (Transformation of MSMEs) was carried out. Findings from the study were expressed as percentages and are summarized in Table 4.

Table 4: Descriptive statistics for Transformation of MSMEs

Research Item	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Our MFI has experienced an increased number of transformed MSMEs in the last 5 years	0.0%	1.9%	7.4%	67.6%	23.1%
Our assets over the last 5 years enhanced transformation of MSMEs that we support	0.0%	1.9%	10.2%	66.7%	21.3%
Our positive Return on Investment (ROI) over the last 5 years has transformed the MSMEs we support	0.0%	4.6%	17.6%	53.7%	24.1%
The products & services we offer have helped transform MSMEs of our clients	0.0%	1.9%	7.4%	57.4%	33.3%

These results indicate that a majority of the respondents (67.6%) agreed that their MFI institution had experienced an increased number of transformed MSMEs in the last five (5) years, 66.7% agreed that their improved assets base over the last 5 years had enhanced transformation of MSMEs that they supported, 53.7% agreed that their positive return on investment (ROI) over the last 5 years had transformed the MSMEs they supported, while 57.4% agreed that the products and services that they offer had contributed to the transformation of MSMEs owned by their clients. These findings corroborate literature by Khandker (2005), WB (2012, 2013) which concluded that Micro-financing gives MSMEs the means to exploit emerging opportunities and make them responsible for their own future. These authors argued that MFIs broaden the horizons of the business enterprises, thus playing both economic and social roles by improving the living conditions of the people involved. Institutions that operate under prudent regulations are, in most cases, required to transform institutionally so as to comply with set requirements (Sengupta & Aubuchon, 2008). The scholars aver that in most cases this transformation has involved change of legal status, ownership, organizational structures, systems and their delivery channels. This change has led to some of the challenges facing MFIs in transforming micro, small and medium enterprises to viable businesses in Kenya (Njihia, 2005).

Based on the findings of this study, it is noted that a majority of the respondents (over 53.7%) agreed with all the four research questions put to them that, indeed, MFIs play a significant role in transforming the growth of MSMEs through the products and services they provide to them, the financial and asset base of the MFI which provides a cushion of the vulnerabilities of the MSMEs

As already discussed in the literature review section of this study, putting up proper managerial structures and processes in organizations is always a necessity during any institutional development processes. Dirk & Achterbergh (2011), Fischer (2006) and Mullins (2010) all cited in Keraro (2014) held the view that developing management structures that permit institutions to attenuate and amplify talent is a crucial condition for organizational viability. Keraro (2014) contends that modern day clamour for lean management structures derive their justification from the fact that they facilitate faster strategic decision making. This study sought for responses on six key investigation areas relating to managerial functions and the transformation of MSMEs. Results obtained from this investigate are discussed below.

Reliability Test on Management Functions

A reliability test was carried out on managerial functions of MFIs to establish their influence on the transformation of MSMEs in Kenya. The results from this test are summarized in Table 5. These results indicate that institution policies had a Cronbach reliability alpha score of .801 which is above higher than the recommended threshold of .7 alpha score.

Table 5: Reliability Test on Management Functions

Reliability Statistics

Cronbach's Alpha	N of Items
.801	6

Factor Analysis on Management Functions

A factor analysis was a carried out on managerial functions to establish how different factors load in relation to the transformation of MSMEs. The findings presented in Table 6 show that all the factors loaded highly as none had a score below the threshold of .4 and therefore none was eliminated from further analysis.

Table 6: Factor Analysis on Management Functions

	Component 1
There are well trained and experienced employees in the organization who deliver high quality service to our customers (the MSMEs)	.794
Managers in our organization take action on new and innovative ideas provided by employees to improve support to our clients	.751
There is effective communication within our organization and with our clients (the MSMEs)	.732
Our management team is easily accessible by our clients (MSMEs) on business related issues	.731
There is clear division of duties and responsibility among employees with a clear focus on enhanced service delivery to our clients	.647
Our organization's operations are always based on the developed strategic plan, with a specific focus on enhanced service to our customers	.577

Descriptive Statistics on Management Functions

An analysis of the descriptive statistics for managerial Functions was carried out and a descriptive statistics table was generated from SPSS Software and presented in form of percentages as shown in Table 7.

Table 7: Descriptive Statistics on Managerial Functions

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
There is clear division of duties/responsibility among employees with a clear focus on enhanced service delivery to our clients	0.0%	2.0%	11.8%	54.9%	31.4%
There is effective communication within our organization and with our clients (the MSMEs)	0.0%	1.0%	28.4%	53.9%	16.7%
There are well trained/experienced employees in the organization who deliver high quality service to our customers (the MSMEs)	1.0%	2.0%	11.8%	52.9%	32.4%
Our organization's operations are always based on the developed strategic plan, with a specific focus on enhanced service to our customers	0.0%	1.0%	5.9%	36.3%	56.9%
Managers in our organization take action on new and innovative ideas provided by employees to improve support to our clients	1.0%	2.0%	28.4%	48.0%	20.6%
Our management team is easily accessible by our clients (MSMEs) on business related issues	0.0%	2.0%	16.7%	52.0%	29.4%

The descriptive data generated on all the six questions raised using SPSS software show that 54.9% of the respondents agreed that there is clear division of duties and responsibility among employees with a clear focus on enhanced service delivery to their clients, while 53.9% agreed that there is effective communication within their organization and with their clients (the MSMEs). A majority (52.9%) of the respondents agreed that there are well trained and experienced employees in the organization who deliver high quality service to their customers (the MSMEs), 56.9% strongly agreed that their organizations' operations are always based on the developed strategic plan, with a specific focus on enhanced service to their customers, 48.0% agreed that managers in their organizations take action on new and innovative ideas provided by employees to improve support to their clients, while 52.0% agreed that their management team is easily accessible by their clients (MSMEs) on business related issues.

These results strongly resonate with the literature reviewed the works of Dirk & Achterbergh (2011), Fischer (2006) and Mullins (2010) that failure of management to carry out the functions of planning, organizing, staffing, directing and controlling leads to lack of clear understanding of the organizational strategy. These authors concurred that developing management structures that permit institutions to attenuate and amplify talent is a crucial condition for organizational viability (Keraro, 2014). Poor communication is a sign of poor leadership and weak management (Aaltonen and Ikavalko (2005). These authors argued that a great amount of information in organizations does not guarantee understanding of the management functions and strategy. The findings on the issue of communication confirm the findings by Wang (2004) who argued that communication should be two way so that it can provide information to improve understanding and responsibility and to motivate staff, thus leading to transformation of institutions. Effective communication should, therefore, be seen as a continuous activity throughout the life of the organization if these organizations have to be of any transformative value to the MSMEs. These results also are in tandem with the findings of Nave (2006) that the success or failure of an entity depends on the leadership styles employed by the leaders. Van Wart (2006) stated that organizations require efficient leaders who are capable of steering people in the right direction to achieve its mission, vision, and to remain faithful to the philosophy and values of the organization.

The empirical results from this study, thus amplify the fact that MFIs whose managers exercise better management functions are more likely to spur transformation if the MSMEs that they work with than these that have weak management systems. Management capability in this case can be greatly influenced by a person's intelligence, physical ability and level of education. Managers in MFIs that recognize and take positive action on new and innovative ideas provided by their employees significantly contribute to the transformation of their clients, the MSMEs, in the same way managers who are easily accessible by their clients do.

Linearity Test for Management Functions

The study sought to establish whether management functions and transformation of MSMEs had a linear relationship between them. A curvilinear graph was generated from SPSS data and presented in Figure 1. The figure shows that the scatter dots fall within the curvilinear line which implies that a positive linear relationship exist between management functions and Transformation of MSMEs as most of the scatter dots lie within or close to the line.

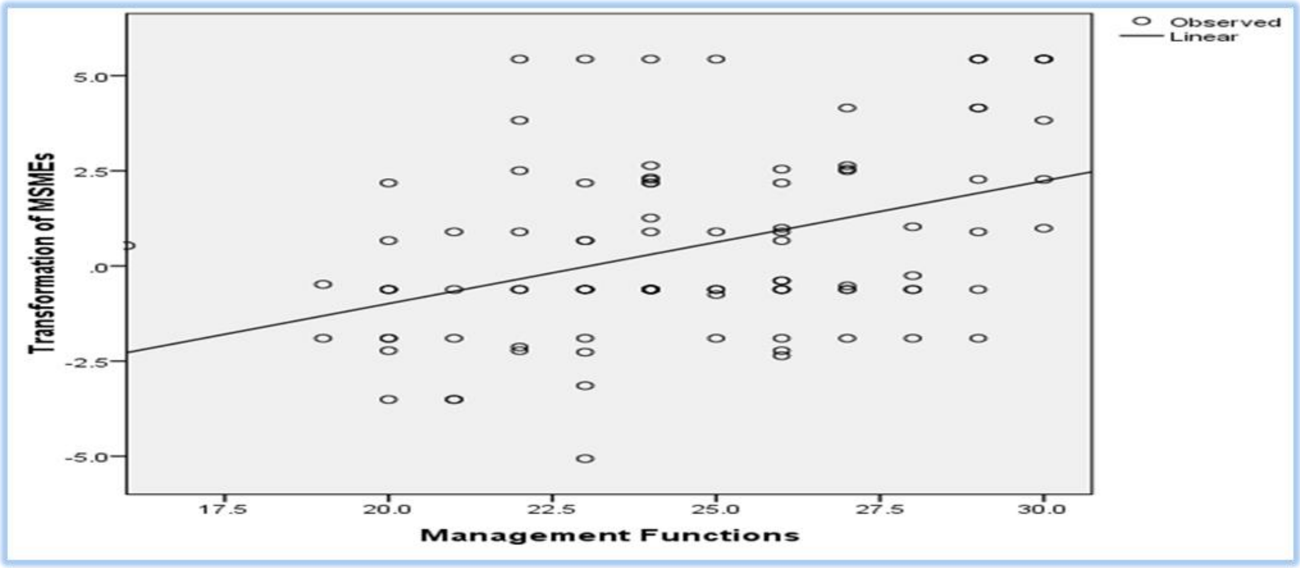

Figure 1: A curvilinear graph for Management Functions and Transformation of MSMEs

Correlation between Management Functions and Transformation of MSMEs

Pearson's Correlation coefficients indicates the extent of interdependence between two variables. This study sought to establish whether there was correlation between management functions and transformation of MSMEs. The findings are summarized in Table 8 From the table, a positive Pearson correlation coefficient of .395 or 39.5% was found to exist between management functions and the transformation of MSMEs.

Table 8: Correlation between Managerial Functions and Transformation of MSMEs

Correlations

		Transformation of MSMEs	Management Functions
Transformation of MSMEs	Pearson Correlation	1	.395**
	Sig. (2-tailed)		.000
	N	102	102
Management Functions	Pearson Correlation	.395**	1
	Sig. (2-tailed)	.000	
	N	102	102

Regression Analysis for Management Functions

A regression analysis was carried out in order to determine whether the independent variable, management functions could be relied on in explaining the change in the dependent variable, the transformation of MSMEs in Kenya. The model summary of the regression coefficients findings are presented in Table 9. The coefficients obtained indicate that the correlation coefficient (R) between the independent variable and the transformation of MSMEs in Kenya was .395 which is a positive correlation relationship. From Table 9, this variable achieved a coefficient of determination (R^2) of .156, which means that this variable alone can explain up to 15.6% of the total variability in the dependent variable, transformation of MSMEs in Kenya.

Table 9: Model Summary for Management Functions and Transformation of MSMEs

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395[a]	.156	.148	1.506

a. Predictors: (Constant), Management Functions

ANOVA Test for Management Functions

An ANOVA test was performed on the variable, management functions and the results obtained are summarized in Table 10. From this Table, 10, the model is found to be statistically significant in explaining the variability in the dependent variable, transformation of MSMEs as its p-value is less than .05 threshold. This means, therefore, that the null hypothesis that management functions do not have a statistically significant influence on the transformation of MSMEs is rejected and instead the alternative hypothesis that they have a statistically significant influence on the transformation of MSMEs is accepted. Table 10 shows that the variable has a P- value equals to .000, demonstrating that the model is statistically significant in explaining the change in the dependent variable, considering that the P-value is less than .05 at the 95% level of confidence.

Table 10: ANOVA for Management Functions and Transformation of MSMEs

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	41.991	1	41.991	18.517	.000
	Residual	226.764	100	2.268		
	Total	268.755	101			

To compliment the findings on management functions and transformation of MSMEs generated from the ANOVA test results, Person's correlation coefficients were also generated. The results of the person's correlation are presented in Table 11. These results show that management functions contribute a statistically significant value (p-value = .000) of .209 to the regression model.

Table 11: Coefficients for Management Functions and Transformation of MSMEs

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	11.580	1.203		9.629	.000
	Management Functions	.209	.049	.395	4.303	.000

Using the summary presented in Table 11, a linear regression model of the form, $Y = \alpha + \beta X_i$ can be fitted as $Y = \boldsymbol{11.580 + 0.209X_2 + e}$

SUMMARY

The study established that; a majority of over 86.3% of the respondents either agreed or strongly agreed that there existed strong communications within their MFI organizations and with their clients, the MSMEs; over 70.6% majority agreed and strongly agreed that written procedures and instructions were critical in driving the quality of their support to MSMEs; over 85.3% said that there were well trained and experienced employees in their MFUI organizations who are capable of delivering high quality services to their clients; 93.2% of the respondents were unanimous that their organizations' operations were always based on their existing strategic plan, with a specific focus on enhanced service delivery to customers; over 68.8% of the respondents agreed that managers in their organizations took appropriate action on new and innovative ideas generated from among their employees in order to improve support to their clients; and that over 79.4% thought that their management teams were easily accessible by their clients on business related matters. The results also established that there existed a positive linear relationship between management functions and the transformation of MSMEs with a correlation coefficient of 39.5%. The results further established that management functions, alone, as a predictor variable could explain up to 15.6% of the total variability in the dependent variable, the transformation of MSMEs. The Analysis of variance (ANOVA) confirmed that management functions were statistically significant in explaining the change in the dependent variable considering that its P-Value result was less that .05 at 95% level of significance.

CONCLUSIONS

The study has confirmed that putting up proper managerial structures and processes in MFI operations are critical in influencing the transformation of MSMEs. Effective management structures and processes permit institutions to attenuate and amplify talent and that this is critical for organizational stability and support to their stakeholders, such as the MSMEs. As revealed by the results of this study, establishing strong communications systems within MFI organizations and with client MSMEs is critical for the transformation of the MSMEs. These communication systems and other management structures are even more critical in the efficient operations of the MFI organizations if the same can be in written form and regularly reviewed so that there is uniformity in their application to the MSMEs. Written management systems, including the delineation of responsibilities and powers serve as a succession tool which ensures continuity and consistency in supporting the MSMEs. Further, written management systems, procedures and instructions are also critical in driving the quality of support to MSMEs by virtue of consistency in application. It should also be noted that an institution with well trained staff that are capable of correctly interpreting the management responsibilities and respecting their lines of authority enhance the transformative support given to MSMEs. Well trained and experienced employees and their managers have the ability to deliver high quality services to clients. Equally important in transforming enhancing the quality of support given to the MSMEs is constant scanning and supporting innovative ideas and contributions that emanate from employees of the MFIs aimed at improving the quality of service delivery to the MSMEs. Equally important is the practicing of open door policies by managers to ensure access by all in the institutions for timely and effective decision making. It can also be concluded, based on the results of this study that management functions have a statistically significant effect in the transformation of MSMEs and, therefore, there should be adequate focus in creating such structures for greater impact to the MSMEs.

RECOMMENDATIONS

It is also recommended that in order for the MFIs to influence transformative changes and ensure stability in the MSMEs, development of sound and effective management structures and processes is imperative; there is the need to establish strong communications systems within MFI organizations and with client MSMEs for the transformation of the MSMEs; The communication systems and other management structures to be established should be in written form and be regularly reviewed so that there is uniformity in their application to the MSMEs; MFIs should ensure they recruits well trained personnel capable of correctly interpreting the management responsibilities and respecting their lines of authority in order to enhance the transformative support given to MSMEs; ensure regular scanning and supporting innovative ideas and contributions that emanate from employees of the MFIs aimed at improving the quality of service delivery to the MSMEs; and develop open door policy by managers to ensure access by all in the institutions for timely and effective decision making.

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