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DETERMINANTS OF ORGANIZATIONAL SUCCESS OF MFI IN ETHIOPIA.

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A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

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STATEMENT OF DECELERATION

I Tadesse Seyoum, declare that this study entitled "Determinants of organizational success of MFI in Ethiopia." is my own work. I have carried out independently the research work with the guidance and support of the research advisor.

This study has not been submitted to any degree in this or any other institution. It is done in partial requirement of the M.Sc. Degree in Accounting and Finance.

Prepared by:

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STATEMENT OF CERTIFICATION

This is to certify that the thesis prepared by Tadesse Seyoum entitled: determinants of organizational success of MFI in Ethiopia and submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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ABSTRACT

The microfinance sector has become a major channel for the provision of financial services to the poor citizens and the formal business sector that are avoided by the banking system on the basis of being high risk. This study focuses on determinants of organizational success supporting the goal attainment of Microfinance Institutions (MFIs) in Ethiopia. It adopts explanatory methods to identify the determinant factors of organizational success in the microfinance industry. The purpose of this study is to identify the major determinants of organizational success of MFIs. From the total of 35 MFIs which are operating in the country, six MFIs have been selected for the study by way of a purposive sampling technique and six determinant variables (leadership, corporate governance, risk management, regulatory framework, access to resource and coverage and marketing) have been used for the study. On the other hand, organizational success was used variables as a goal attainment perspective. The determinant factors of organizational success examined by using primary data gathered from managers and senior expert respondents of six samples of MFIs and the study used quantitative research approach. The data were analyzed by using multiple linear regression models. The empirical result shows leadership, corporate governance, risk management, regulatory framework and access to resources have positive and significant relationship with organizational success of MFIs while coverage and marketing has insignificant relationship. Based on the result of the study, it is recommended that the board of directors and managements should have an industry specific skills and experience. Risk monitoring activities must be supported by information management system.

Keywords*: Organizational Success, Leadership, Corporate Governance, MFI.*

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ACRONYMS AND ABBREVIATIONS

ACCION	Americans for Community Co-operation in Other nations.
AEMFI	Association of Ethiopian Microfinance Institutions.
ALBPB	Average loan balance per borrower
BRI	Bank Rakyat Indonesia.
CG	Corporate governance.
FSS	Financial Self Sufficiency.
GLPR	Gross loan to asset ratio
GPY	Yield on gross loan portfolio
IFAD	International Fund for Agricultural Development
MDO	Microenterprise Development Organization.
MFI	Micro Finance Institution.
NAB	Number of active borrowers
NBE	National Bank of Ethiopia.
NGO	Non-Governmental Organization.
ORDA	Organization for Rehabilitation and Development in Amhara.
OSS	Operational Self Sufficiency.
PEACE	Poverty Eradication and community Empowerment Microfinance Institution.
PWB	Portion of women borrowers
REST	Relief Society of Tigray.
SFPI	Specialized financial and promotional microfinance institution.
UK	United Kingdom
UNCDF	United Nations Capital Development Fund**.**

CHAPTER ONE

1. Introduction

1.1. Back ground of the study

Measuring organizational success is a continuous challenge for both managers and researchers. While financial measures were in wide use for many years, new frameworks have emerged in recent years that extend organizational perspectives beyond traditional financial measures. While many articles and books have been written on the topic of "organizational success", managers are still struggling with the issue of performance measurement, and are overwhelmed with performance data. In many real life situations they may have difficulty determining which specific measures are critical to their firm, and which measures will influence managers to do the right thing, and, in such circumstances, many firms keep focus solely on financial measures.

Thus, the study of organizational success has been at the core of management research for many years. However, real issues still exist in the definition and measurement of organization performance. While many performance models have been presented in the literature, little empirical testing has been performed to test and validate the concepts (Alan C. Maltz, Aaron J. Shenhar and Richard R. Reilly).

This paper is written as an attempt to understand the concept of organizational performance in micro finance institution better, and to contribute to the creation of a practical framework for the assessment of sustainable organizational success.

The emergence of microfinance and its very important progression were naturally monitored by major institutional recognitions. 2005 was indeed declared year of microfinance by the United Nations, whilst the 2006 Nobel peace prize was awarded to Mohammad Yunus, founder of the Grameen Bank and pioneer of microfinance.

Microfinance is traditionally defined as a micro-sized finance which primarily includes microcredit, micro-insurance and micro-savings. Microcredits, which is the main activity of Microfinance institutions (MFIs), are commonly defined as productive loans granted to people excluded from the banking sector and whose amount is less than 40% of GNP per capita (Nowak [2005]). Although these services are developed by a wide range of institutions, from commercial banks to non-profit organizations, they are theoretically bound by three fundamental goals: reducing poverty, promoting self-employment and enhancing the empowerment of socially excluded populations, especially women.

Microfinance institutions (MFIs) worldwide are striving to reach out to a large number of clients (breadth of outreach) and at the same time ensure coverage for those living with high relative poverty levels (depth of outreach) with financial services needed for both consumption and enterprise development. The main goal of microfinance is to ensure a massive reduction in poverty through institutions that are sustainable (Demirguc-Kunt & Morduch 2007).

Financial development in Ethiopia is generally low. The degree of monetization is obviously low in a country where the economy itself is dominated by a subsistent oriented agriculture. Broad money as a proportion of the GDP, which is broadly taken as a measure of the extent of financial development, is in the range of 24% to 28%.While this statistic is comparable to many low-income African countries.

The study revealed various shortcomings; the ones more commonly associated with NGO credit delivery: lack of sustainability perspective, too low interest and repayment rates, undercutting of a healthy credit culture and inappropriate products and services. Thus study as well as other ones conducted at the same time advised the government to formulate performance standards for all credit providers.

Building sustainable financial institutions was accordingly considered by the government as a first priority for the microfinance industry. A next one was to build a genuine national microfinance industry. And, equally important, the old instrument of directed credit delivery was included in the regulation package. The government wanted MFIs to serve the rural subsistence farmers, as they represented the vast majority of the country’s poor; microfinance had to play an important role in the national poverty reduction agenda.

1.2. Statement of the problem

MFI to be successful must achieve their prime objective, and should be able to provide financial services on a sustainable way. To be sustainable, MFIs should be profitable and generate an income.

The empirical results showed that both internal and external factors have a strong influence on the organizational factors (profitability).

Chan (2010) demonstrates that leadership experience and expertise are critical for MFI success, Hartarska (2005) notes the positive relationship between management experience and MFIs' financial and social performance. Hudon (2009) also finds that top management can improve MFI financial self-sufficiency, while Hulme (1993) indicates that the degree of autonomy guaranteed by top management is important for MFI success. Similarly, CEO power might influence MFI success (Galema et al. 2012).

Rees (2003) argues that there has been an enormous diversity of interpretation of the personnel productivity and no agreed definition however, it is the ability of the staffs and board of directors client managing quality to achieve the objectives of the companies and measured with profitability and growth. Personnel productivity has a significant statistical impact on Profitability of companies (Liargavas & Skandalis, 2008 and Merikas, G., Merikas, A., & Skandalis, 2006).

The higher the qualified employees, the better the profitability of micro finance institutions (Amal et al., 2012).

The Microfinance industry, along with all the players in it, is quickly changing. Today, the microfinance industry has become both more crowded and complex. First of all, the concept of microfinance no longer just covers microcredit only, but also includes the possibilities of saving, insurance and money transfer. Although MFIs are characterized as one type when it comes to financial services, there is a great variety of MFI‟s in terms of legal form, profit status, degree of sustainability and funding sources (Sima, 2013). The establishment of sustainable MFI that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a key component of the new development Strategy of Ethiopia (Alemayehu, 2008).

To achieve success on a small amount in almost any area, high levels of enthusiasm and resources can assist to get the success, but innovation provides the ideas and knowledge that help to achieve service-delivery on a large scale. (Hulme and Moore, 2006).

The key implementation has been a well-designed strict administrative structure of GB, thus contributing to expand micro-finance especially in Bangladesh. (Hulme and Moore, 2006). Due to the effectiveness and efficiency of MFI, it was able to increase the service delivery of micro-finance. (ibid).

Thus, successful MFIs should satisfy both the social goal of reaching out to many more poor people and be able to sustain their business operations over a longer period of time financially. Reaching out to poorer clients on a sustainable base is possible and some MFIs such as Bancosol in Bolivia have demonstrated this in the past. However, the attainment of this double-line goal remains a challenge to most MFIs in recent times, and several studies (Cull, Demirguc-Kunt & Morduch 2009; Paxton 2002; Quayes 2012; Zerai & Rani 2011) that analyzed the relationship between outreach, sustainability and efficiency reported various trade-offs.

A study by IFAD (2012) also indicates that the number of MFIs clients, entirely rural households, can easily be raised to about 5.5 million, and the annual credit intake to 4.4 billion birr or USD 515 million. Compared to the current level of 1.2 million households so far covered by the MFIs, the unmet gap is wide. Even by the standard of Sub-Saharan Africa, access to financial services has not yet been developed.

Formal commercial banking has been unable to provide access to poor rural and urban Ethiopians that comprise 45% of the overall 82 million populations. These people live below the national poverty line even more they live in absolute poverty not attaining the minimum calorie intake per day and of course are living witnesses of a structural and endemic poverty (AEMFI, 2012).

Studies indicated that problems in Ethiopia are how to build viable microfinance institutions with self- financing and reaching too many more poor people (outreach). Most MFIs have not yet attained the operational and financial self-sufficiency to continue their operation as viable institutions. Several factors could contribute to problems in gaining financial sustainability (Degefe 2009). The proposed study will seek to fill the knowledge gaps by providing answers to the following research question what are the significant factors that leads to organizational success of Microfinance in Ethiopia.

This study will try to identify the factors that drive the success of microfinance institutions in Ethiopia so that the sector can leverage on the factors to foster own growth as well as ensure economic inclusivity in Ethiopia.

1.3. Objective of the study

1.3.1. General Objective of the study;

Based on environmental factors to the success of microfinance, the principal objective of this study is to analyze and identify that significant factor that leads to organizational success of microfinance in Ethiopia.

1.3.2. The specific objectives of the study are to;

1. To identify the major determinants of organizational success of MFI in Ethiopia.
2. To identify which factors (Internal/External) make quicker organizational success of MFI in Ethiopia.
3. To investigate the relationships between different factors and organizational success of MFI in Ethiopia.

1.4. Hypothesis of the study

From a goal-attainment perspective, accomplishing clearly stated objectives indicates MFI success. Based on this dimensions, the following theoretical hypotheses were formulated to test empirically by using the data will be gather from the sampled MFIs and association of Ethiopian Micro finance Institutions.

$H_{1:}$ leadership has positive relationship with the organizational success of MFI.

H_2: Risk management has positive relationship with the organizational success of MFI.

H_3: Corporate Governance has influences on organizational success of MFI.

H_4: Coverage, Reach and Marketing has direct influences on organizational success of MFI.

H_5: Regulatory framework has influences on organizational success of MFI.

H_6: Access to Resource has positive relationship with organizational success of MFI.

This model only considers the main drivers of success for microfinance institutions. Other factors that are incidental are explored on their own.

1.5. Significance of the study

This study will be benefit to the Microfinance in several ways such as the Microfinance companies can assist to examine their core competencies.to identify their strength, weaknesses, opportunity and threats in their organizations and external environment and it helps to react accordingly. It may be useful to the policy maker as a basis to measure the performance of Microfinance. It will inform to the management to focus on the basic determinant factors to meet the organizational success.

The study may also help potential investors in the sector to inform a better understanding of the strategies will be used to achieve successful Microfinance institution. It also will uses as a source to undertake further research for researchers.

1.6. Scope of the study

The scope of the study is limited to determine the significant factors that lead to organizational success of MFIs in Ethiopia. Specifically, leadership, corporate governance, risk management, regulatory framework, Access to resource and coverage and marketing and their relationships with organizational success were covered. There are 35 MFIs in Ethiopia which were considered as a target population of this study. The study period was 2018.

1.7. Limitations of the Study.

The major problem that the researcher has faced during the process was most of the respondents are not volunteer to respond and deliver. All microfinance institutions did not publicized reports to the website therefore there is lack of complete information. As indicated in the other sections, this research was purely dependent on the primary data which is obtained by using questionnaires.

From the total of 72 questionnaires distributed to employees of MFI, only 57 are given response to the question and collected. But on the other aspects, the researcher believes that there is no problem with regard to the designs and methodologies applied to achieve the objectives of the study.

1.8. Organization of the study

The study is organized in to five chapters. The first chapter introduces what the study is about and gives a brief introduction about the study, the problem statement, the objectives, hypotheses, significance, scope and limitations of the study while chapter two provides a highlight of pertinent theoretical and empirical reviews of the literature and conceptual framework relevant to the study. The third chapter provides description about the methodology and the variables used in the study and the fourth chapter presents the results and discussions of the study conducted based on data collected from primary sources. The results of the descriptive statistics, correlation analysis and regression analysis have also been discussed in the fourth chapter of the study. The study ended up with the conclusion and recommendations chapter, which is chapter five, that brings to light the conclusion and major findings of the study with possible recommendations in a manner that relates to the topic, which are the determinant factors of organizational success of Microfinance Institutions in Ethiopia.

CHAPTER TWO

2. Literature Review

How has Micro-finance been success? The purpose of this chapter is to review different types of theoretical literature that are critically explained regarding the success of micro-finance. This chapter organized as follows: section 2.1 presents the theoretical review; section 2.2.Presents environmental factors of organizational success. Section 2.3 presents Empirical studies conducted in the area, section 2.4 presents the conceptual framework of the research, and finally section 2.5 presents summery of the review and the knowledge gap.

2.1. Theoretical Literature Review

2.1.1. Definition of microfinance

Microfinance defined as the provision of financial services to low-income people who traditionally have been excluded from financial systems (Hermes et al. 2011;Pe'rilleux et al. 2012) has changed substantially since its inception in 1976 (Armendariz and Morduch 2007; Augsburg and Fouillet 2010). Until the late1980s, the notion was particularly promoted by nonprofit, nongovernmental, microfinance institutions (MFIs) that took as their primary objectives the reduction of poverty and inequality (Armendariz and Labie 2011; Augsburg and Fouillet 2010; Dichter 1996). They also required substantial subsidies to accomplish their social goals (Cull et al. 2009; Hudon and Traca 2011).

Since the early 1990s, though, the microfinance movement has become more commercialized, such that some MFIs have decreased their dependence on subsidies and started to manage operations on a business basis as part of the regulated financial system (Christen and Drake 2002;Pe´rilleux et al. 2012). For example, some nongovernmental organizations (NGOs) transformed into regulated commercial financial institutions (Armendariz and Labie 2011; Chahine and Tannir 2010).

Motivated by the success of the microfinance model, commercial banks also adopted profit-oriented microfinance activities (Assefa et al. 2013; Augsburg and Fouillet 2010). The modern microfinance market, thus, represents an important competitive industry featuring both nonprofit and for-profit MFIs (Ledgerwood 2013; Pe´rilleux et al. 2012;

Servin et al. 2012). The changing nature of the microfinance market also has transformed understanding of what constitutes organizational success for MFIs. In addition to social objectives, such as poverty reduction, empowerment, and financial inclusion of the poor (social performance) (Ledgerwood 2013; Vik 2010), MFIs need to achieve good financial ratios (financial performance) to survive in increasingly competitive markets (Gutie´rrez-Nieto et al. 2009). Thus, many MFIs follow a double-bottom line approach, though with some differences in their relative focus. Nonprofit MFIs tend to put more weight on their social performance, whereas for profit MFIs mainly concentrate on the achievement of clearly stated financial goals (Galema et al. 2012; Mersland and Strøm 2009; Servin et al. 2012). In addition, the competitive context has led to an emphasis on efficiency as a dimension of organizational success for both MFI types (Hamed 2007; Hermes et al. 2011).

To assure such organizational success, MFI management is critical (Hudon 2009).The microfinance literature addresses several management-relevant topics, including group lending (Harper 1998; Hermes et al. 2005), drivers of transaction costs (Shankar 2007), market orientation (Woller 2002), funder loyalty (Gutie´rrez Nieto and Serrano-Cinca 2010), and funders' perceptions of project effectiveness (Ly and Mason 2012). However, knowledge about the determinants of MFI success, i.e., success factors, remains relatively scarce (Mersland et al. 2011). This article responds to calls for success factor research in microfinance settings (Khavul 2010; Mersland et al. 2011) by drawing on the management literature pertaining to organizational success. We elaborate on success factors that have been examined previously in the microfinance literature, then analyze the state of the field in terms of its theoretical foundations and empirical methods applied. In addition, we propose research avenues to pave the way for more management-based investigations in microfinance.

2.1.2. The microfinance revolution: An overview

The history of micro financing can be traced back as long to the middle of 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as away getting the people out of poverty. The first microenterprise program began in the developing world in the early 1960s and emerged in the United States in the early 1980s.

The United States microfinance movement was influenced by the women's movement and is an integral part of the community economic development movement (U.S. G.A.O, 2003). As governor of Arkansas, Bill Clinton supported the good faith fund, one of the early United States microenterprise programs. Many of the early microloans programs in the United States, such as Women's imitative for Self- Employment, focused on women, who remain the primary borrower (Susan R, 2004).

Gender equality advocates have also recognized the importance of the microfinance industry.

In 1994, women's world banking, and organization dedicated to helping low income women entrepreneurship by expanding their access to financial services, invited income women leaders to form the united nation expert group on women and finances. Contributions from the United

Nations expert group on women and finances have been used by many reactionaries and policy makers in many countries to build policies, system and services that work for microfinance

(Sachs J D, 2005). Microfinance services are provided by banks, credit unions, and microfinance organizations, which are also known as microenterprise development organization (MDOs). MDOs such as Americans for Community Co-operation In Other Nations (ACCION) international were started in the early 1960s and Grameen Bank began in the 1970s when its founder, Mohammad Yunus, an economist professor in Bangladesh, began lending small amounts of money to poor people (Stephen C. 2005). The world attention was focused on microfinance when Yunus and the Grameen Bank won the Nobel Peace Prize in 2006 (Susan R, 2006).

Another milestone in the history of microfinance was the opening of the Indonesian People's

Credit Bank in 1895 that became the largest microfinance system in Indonesia,Self-employed women's association Bank in India and many more (Helms, 2006). Other concepts of subsidized loans given out by NGOs and governments to farmers, which might be compared with pure micro credits, often failed since farmers took the low interest loans as grants and more importantly they did not reach the real poor at all, but rather the more influential and better-off farmers. In the 1980s the microcredit programs improved their methodologies significantly and managed to be financially viable through cost-recovering interest rates and a very high repayment quota. Recently, some innovative microfinance institutions such as

Bank Rakyat Indonesia (BRI) and Banc sol in Bolivia have shown that it is possible to deliver credit to large number of poor people without the financial institution being at risk.

Today there is a strong trend towards commercialization and transformation of providers of microfinance into formal financial institutions. This stems from the motivation of profitability and sustainability of microfinance institutions. More and more institutions became independent from donor funds and raise their capital from the capital markets while increasing their outreach. Commercial MFIs utilize private, unsubsidized sources of funding to raise capital in order to grow and serve more clients. In becoming commercialized, these institutions now have a double bottom line: a financial objective of sustainability to satisfy their funders in addition to their social objective of outreach (CGAPa, 2004). Originally, most MFIs rely on donations and subsidies for funding. Because these sources of funds are vulnerable to shocks, many MFIs chose to attract private sources of funds.

These private sources of funding include: deposits, loans from commercial banks, bond issuances, other short-term financial liabilities.

By accessing deposits and loans from commercial banks, commercial MFIs can grow and avoid a liquidity crisis by tapping commercial sources of funding (Berger et al, 2006). The emphasis on profitability by depositors and lenders can push these MFIs towards an increased focuses on efficiency to control costs and the innovation of new products and technologies to stay competitive. Sustainability should also be important to MFIs, especially, if they hope to help their clients out of poverty because their longevity as an organization matters. Within the industry, commercialization has several different meanings and proxies. Commercialization is defined in two ways; first, the percentages of total MFI funding that is commercial, i.e. banks loans and deposits, and second the portion of the loan portfolio financed using commercial funds.

2.1.3. The schools of thought on microfinance service delivery

There are currently two sides of a common debate that represents the various approaches that financial services to the poor can be provided. There are the institutionist school of thought and the welfarist school of thought (Woller et.al, 1999). These schools of thought disagree on the right approach to finance the poor. This debate currently determines the approach an institution adopts in the delivery of financial services to the poor. Morduch,

(2000) has referred to this debate as the microfinance schism. Woller et.al, (1999) has described the situation as "two nations divided by a common language".

2.1.3.1. The Institutionst Approach

The Institutionist paradigm argues that MFIs should be able to cover their operating and financial costs mainly from revenues that are generated from lending. They emphasize that, institutional financial viability and sustainability are key to a successful inclusive financial provision to the poor (Brau & Woller, 2004). To the Institutionist, an emphasis is laid on creating a sustainable microfinance institution that can adequately serve the poor. To them, a viable MFI is a pre-requisite to adequate outreach. This, they explain to mean that, if the institution is sustainable, then an inclusive financial service can be provided to the poor even at cheaper cost. Institutions that have adopted this approach focus on the breadth of outreach

(Scale) rather than the depth of outreach (level of poverty). Nevertheless; this has been the approach of current commercial MFIs.

MFIs according to Woller, and Woodworth (1999) should be able to cover operating and financing costs through programme revenues rather than through donations and subsidies. The approach emphasizes the fact that, raising the cost of microfinance services does not reduce demand for it. More so, it is only sustainable programs that can make a real impact on poverty but not subsidized and donor dependent programmes. Cope stake et.al, (2005) have also contributed to this thinking by pointing out that profitability as a means to sustainability of a microfinance programme is a necessary prerequisite for a sustainable poverty reduction. In providing financial services to the poor, the Institutionist argue that the institutional sustainability is very paramount and should be the focus if the numerous numbers of currently excluded poor are to be reached and provided with better financial services that can have the desired impact on poverty levels.

2.1.3.2. The Welfarist Approach

On the other hand, is the welfarist school of thought who believes and argue that the poor and poverty reduction should be placed first. They try to demonstrate that if MFIs concentrate on sustainability and financial viability, the tendency to lose focus on the poor and the very poor is very high. It is contended that, it is possible for MFIs to be sustainable since donations from donor agencies serve as a form of equity which MFIs can satisfactorily use to reach the poor without making profit and donors will be satisfied with that since it is a form of social investment.

The welfarist school of thought emphasizes poverty alleviation and depth of outreach rather than the breadth of it (Brau & Woller, 2004). They agree that institutional sustainability is very important but it is unethical to sacrifice the depth of outreach to achieve such financial viability that the Institutionists hold. In that vein they suggest that subsidies can still make an institution sustainable without necessarily focusing on profitability. It is clear that the two schools of thought have different views on the methodology that should be adopted in this drive to serve the poor.

However, (Von Pischke, 1996) has pointed out that there exist a trade-off between the two debates but the nature, extent and the implications of the tradeoff is not resolved; and the way the debate is resolved will have a significant impact on microfinance in terms of its guiding principles, objectives, clients and delivery (Woller et.al, 1999). The Institutionist school of thought therefore, conclude that subsidized programmes as advocated by the welfarist paradigm undermines savings culture which is an important aspect of microfinance and such credits in most cases end up in the hands of the non-poor (Morduch, 2000).

2.1.3.3. Welfarists vs. Institutionalists: Performances of MFIs and causality.

Microfinance in 1990s was marked by the major debate between the leading views the financial system approach and the poverty lending approach (Robinson, 2001:22; as cited by Degefe, 2009). Therefore, it is possible to distinguish two general and contrasted approaches that emerged during the underlined periods with respect to the interaction between social performance and financial performance. The debate demarcates an "ideological rift" (Burrel, 2000) between the proponent of subsidized microcredit service identified as welfarist, in other words as supporting the poverty alleviation to microfinance services and those supporting the market approach for the provision of microfinance service on a sustainable basis.

Welfarists inspired from the studies of Morduch (1999, and 2000) and Hatch and Frederick (1998) and Woller and al. (1999)). This school of thought primarily aims at promoting the social performance of MFIs through the depth of outreach and impact assessment. It targets

2.1.4. The Concept of key Success Factors

According to Rockart (1982), key success factors are the few areas of activity in which favorable results are absolutely necessary for a manager to meet his goals. Earlier, Rockart (1979) defined key success factors as the limited number of areas in which satisfactory results will ensure the successful competitive performance of the organization. He further argued that a key success factor can be a specific talent or skill, a capability or something which the firm must do to satisfy its customers. From these two definitions key success factors can be viewed as the specific skill and competences a firm needs to compete well and also the specific things a firm in any industry must concentrate on doing well.

Grunert and Ellegaard (1992) define key success factors as market specific business skills with high leverage on perceived value and relative costs. Which also correspond to some market characteristics. This they state shows that a skill or resource can be a key success factor in one but not in another market.

Key success factors are also referred to as critical success factors in literature. According to Ideaje and Ibe (2006), critical success factors in the MFI sector include the ability to reach clients, appropriate lending methodology, productivity, a supportive regulatory environment, ability to attract, train and retain staff, appropriate market segmentation and the use of an appropriate management information system. The ability to reach new clients is an aspect of how the MFI will market itself.

The two most important objectives for microfinance institutions to be successful are financial sustainability and substantial outreach to the target population (Yeron 1995).

However, knowledge about the determinants of MFI success, i.e., success factors, remains relatively scarce (Mersland et al. 2011). This study tried to identify the determinants factors that leads to organizational success of MFI.

The changing nature of the microfinance market also has transformed understanding of what constitutes organizational success for MFIs. In addition to social objectives, such as poverty reduction, empowerment, and financial inclusion of the poor (social performance) (Ledgerwood 2013; Vik 2010), MFIs need to achieve good financial ratios (financial performance) to survive in increasingly competitive markets (Gutiérrez-Nieto et al. 2009).

Some of those significant factors practiced for the achievement of organizational success are;

2.1.4.1. Leadership.

Leadership is also key to creating healthy organizational cultures that institutionalize deep diversity. At least some aspect of effective leadership has to do with timing. An executive observes that, so often, important decisions come down to having key people in place at the right time (Mary Ellen S. Capek and Molly Mead).

Leadership is a complex, multidimensional phenomena (DePree, 1989). It has been defined as: a behavior; a style; a skill; a process; a responsibility; an experience; a function of management; a position of authority; an influencing relationship; a characteristic; and an ability (Northouse, 2007).

In addition, research shows that being an effective leader depends upon common behaviors and characteristics like: confidence; service mentality; good coaching skills; reliability; expertise; responsibility; good listening skills; being visionary; realistic; good sense of priorities; honesty; willingness to share; strong self-esteem; technical or contextual, and recognition (Bennis and Nanus,1997).

2.1.4.2. Corporate governance.

Corporate governance is an issue for all corporate bodies, commercial firms and not-For Profit organizations. In terms of their governance structure, there are certain ways in which companies might differ from other types of organizations such as their ownership, their mission, and the legal or regulatory environment within which they operate. For instance, public sector organizations are organizations whose governance is controlled by one or more parts of the state. Their objectives are often to implement government policies and programs. Others may be incorporated by multinational companies or nongovernmental organizations (NGOs) to achieve a certain objective. MFIs operating in Ethiopia are also characterized by different ownership styles; some are owned by government and others are owned by private owners and NGOs.

According to the UK Corporate Governance Code, 2012, corporate governance (CG) has been defined as the system by which organizations are directed and controlled. Good corporate governance maximizes the profitability and long term value of the firm for shareholders. It is also defined by Organization for Economic Cooperation and Development (OECD, 2004) as a set of relationships between a company’s directors, its shareholders and other stakeholders. As per OECD, corporate governance also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring performance are determined.

2.1.4.3. Risk management

Risk management is a continual process of systematically identifying, measuring, monitoring and managing risks in the organization.

Risk Management is a discipline at the core of every institution and encompasses all the activities that affect its risk profile. Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off. This can be achieved through putting in place an effective risk management framework which can adequately capture and manage all risks an institution is exposed to. Risk Management entails four key processes. Regardless of the risk management program, each risk management program should include risk identification, risk measurement, risk control and risk monitoring.

Risk is a daily phenomenon in every area of life and business. The management of these risks is therefore important to reduce to the barest minimum the untold hardship of not recognizing and managing the risk.

Risk management is an integral part of monitoring and evaluating both liquid and illiquid assets and depositors liabilities of MFI to ensure the sustainability of the industry. It should be understood from the outset that risk cannot be managed in any MFI if the management did not set a goal in that direction. Therefore, the first thing to be done is that there must be a written goal and drive from the owners and managers as to the need to manage risk on daily basis before they arise and/or as they become known. Furthermore, the management should put in place a risk management policy and procedures covering all areas of their microfinance business, including those areas they (MFI) intend to venture into in the nearest future.

2.1.4.4. Regulatory framework.

A legal framework for the establishment and operation of Micro finance institutions has also been provided by proclamation No. 40/1996. The proclamation stipulates that MFIs are to be established as share companies wholly owned by Ethiopians and should be licensed by the NBE. Following this proclamation, about 35 MFIs have been established.

The government pursues a two-pronged policy as far as the financial sector is concerned. On the one hand, maintaining a stable macroeconomic environment and a sound financial system are the key monetary policy objectives of the government. Improving the operational quality and efficiency of the financial sector are its stated objectives.

On the other hand, the government has encouraged the development of micro financial services, largely to the rural people. The agricultural development strategy (2001) of the government takes rural finance as one of the key factors for enhancing agricultural production and ensuring food security. Over the last ten years, an arrangement has also been made for the formal banks to provide input loans to the farmers as part of the agricultural extension program to boost cereal production, largely on the basis of interest spread sharing and guarantee from the regional governments. The collection and monitoring of the loans has been generally left to the regional governments, and as such, were the most secured one. However, this arrangement, which has been working for the last ten to twelve years, is reported to be institutionally unsustainable, as the tasks of disbursing and collecting the loans proved to be too demanding on the human and budgetary resources of the regional governments (IFAD 2012). The SDPRP (2002) document clearly states the strategies for developing viable rural financial institutions, namely: replace the large rural loans so far provided via the intermediary of the regional governments by a viable and reliable institutions, Strengthen the rural financial system by forging a strong working relationship between the formal banks and the rural financial institutions, Promote group lending system, Strengthen rural banks and expand their operational scope, Directly extend credit to cooperatives with strong institutional and managerial capacity via forging a strong link between rural banks and cooperatives.

2.1.4.5. Resource Access.

Intellectual capital is widely reported as a strong driver of success for organizations (Pinz and Helming, 2014; Kamukama et. al, 2010). MFIs need to consider their recruitment process to attract best qualified staff and engage in retraining strategies so as to better achieve results (Chirwa et al, 1999; Pinz & Helmont, 2014). Hartungi (2007) and Hulme & Moore (2006) present that employee incentives have a significant contribution to success in the micro lending business. The merit based promotion and bonus system are among the most commonly used incentive systems that contribute to success in the microfinance sector (Kaplan & Norton, 2009 and Mckin & Hughart, 2005 cited in Chowdhury 2009; Pinz & Helmont, 2014;Hartungi, 2007). Adequate remuneration of staff managerial and non- managerial is critical for better results.

2.1.4.6. Coverage and Marketing

A major key to success in the service industry is having the right marketing strategies. Kotler (2000) defines a marketing strategy as a game plan for reaching an organization's set goals, addressing issues such as new product development, pricing, location of operations and the promotion of the institution and its products. Pierce and Robinson (1997). Microfinance institutions have also begun studying the behavior of their existing and potential clients. By understanding their market and prospective clients MFIs have been able to tailor their products and their price offerings.

Wright et al (2003) notes that the growth in the Microfinance sector and the competition within has led Microfinance institutions to re-examine their products and delivery systems so as to better respond to their clients' needs. They further observe that this development of a client- responsive and market- led approach to the Microfinance industry is an important watershed in the industry.

2.1.5. The Concept of Profitability

Profitability means ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. According to Harward & Upton, (1961) “profitability is the „the ability of a given investment to earn a return from its use.”

According Al-Shami, (2008) there are different ways to measure profitability such as: return on asset (ROA), return on equity (ROE). Return on Asset indicates of how profitable a company is relative to its total assets. It gives us an idea as to how efficient management is in using its assets to generate earnings. On the other hand return on equity measures a company’s profitability which shows how much profit a company generates with the money shareholders have invested. This measure gives a sense of how well a company is in using its money to generate returns.

2.1.6. Sustainability of Microfinance Institutions

Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off. Reaching the poor is major issue related to sustainability of MFIs. Reaching the poorest of the poor is more costly than reaching other segments of the market even when there are no fixed lending costs, and that leverage may be much harder to achieve for MFIs that target the ‘‘low-end’’ of the market . With the purpose of attaining sustainability, MFIs try to gain economies of scale by diverting their efforts in servicing better-of clients. This strategy results in reducing expenses per loan and increasing the probability of repayment. Another way to attain sustainability, consistent with Tucker and Miles, is to increase profits by raising interest rates, fees, or both. This option moves the costs for clients up and consequently raises default rates. Both options, hit very poor badly and they could not benefit from microfinance services.

2.1.6.1. Financial sustainability

A vast and growing literature posits that for MFIs to achieve full potential they must become financially sustainable (see e.g. Brau and Woller, 2004 for a comprehensive review). Financial sustainability also known as financial self-sustenance (FSS) and operational self-sustenance (OSS) in this context, is measured as the ability of MFIs to continue operations indefinitely using own resources without seeking donations, grants, or subsidized loans from outside individuals, NGOs, or governments.

Microfinance information exchange market defines the term financial sustainability as having an operational sustainability level of 110% or more. While, operational sustainability is defined as having an operational self-sufficiency level of 100% or more. Meyer (2002) was noted that the poor should have access to financial service on long-term basis rather than just a onetime financial support. He also stated that the financial un-sustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. According to him, there are two measures of microfinance financial sustainability, i.e. operational self- sufficiency and financial self-sufficiency (Meyer, 2002).

2.1.6.1.1. Operational self sufficiency

Operational sustainability accompanies the concept of operational self-sufficiency (OSS) which measures operating revenue as a percentage of operating and financial expenses, including loan loss provision expense. If this ratio is greater than 100 percent, the MFI is covering all of its costs through own operations and is not relying on contributions or subsidies from donors to survive (Churchill and Frankiewicz, 2006, pp: 367). OSS in general includes all the cash costs of running a MFI, depreciation and the loan loss reserve. Sometimes donors will exclude the cash costs of funds from their analysis because those MFIs that begin to access the commercial financial markets and pay the cost of capital would look relatively worse than other institutions with the same costs and outreach, but who have remained reliant on donor capital to fund their portfolio (UNCDF, 2002,PP: 20). This applies due to the fact that some donor fund dependent institutions do not have the same financing cost as commercial MFIs.

OSS is calculated as: Financial revenue (Total)

(Financial expense +loan loss provision expense + operating expense) (Microfinance bulletin, 2008a P: 13)

As Meyer operational sustainability refers to the ability of the MFI to cover its operational costs from its operating income regardless of whether it is subsidized or not (Meyer, 2002). It actually refers to the future maintainability of the MFIs operational self-sufficiency. As mentioned in Armendarize and modruch, (2010, p: 243-244), operational self-sufficiency ratio measure the extent to which the operating revenue of MFIs cover its operating cost. Revenues mainly come from interest and fees paid by borrowers, but a typical institution also generates income from investment and other services. OSS is the most basic measurement of sustainability showing the extent at which operating revenues are enough to finance financial, loan loss provision and operational expense (Barres et al, 2005). The United Nations Capital Development Fund (UNCDF) in 2009 also defines OSS simply as:

$$OSS = \frac{\text{operating revenue}}{\text{Financial expense +loan loss provision expense +operating expense}}$$

The financial expense is the denominator of OSS pertains to the cost of raising capital. CGAP (2003) recommended that expense for loan loss provisions also be included in the denominator.

The loan loss provision expense is the amount set aside to cover the cost of loans that the MFIs do not expect to recover. The third item operating expense captures basic operating expense like rent, staff wages and transportation costs among others. For MFIs it is one of the major goals to achieve OSS in order to maintain viable and further grow in their operations. Is increases in OSS is due to larger loan sizes, high yields, low financial expenses, or efficient operations?

2.1.6.1.2. Financial self-sufficiency.

Financial sustainability describes the ability to cover all costs on adjusted basis and indicates the institution's ability to operate without ongoing subsidy (i.e. including soft loans and grants) or losses. Financial self-sufficiency shows the ability of the MFIs to be fully sustainable in the long run by covering all operating costs and maintains value of capital. The subsidy adjustment simply indicates the extent to which the subsidy being passed on to clients through lower interest rates or whether it is building the MFIs capital base for further expansion

(AEMFI, 2013). According to AEMFI there are three types of subsides: a cost of funds subsidy from loans delivered below market rates, current year cash donations to fund portfolio and cover expenses and in kind subsidies such as free office space. Here, UNCDF distinguishes FSS from OSS only by the fact of an adjusted basis. The United Nations Capital Development Fund (UNCDF) in 2009 defines FSS as:

$$\text{FSS} = \frac{\text{Adjusted operating income}}{\text{Adjusted operating expense}}$$

Ledger wood additionally states that the FSS indicator should show whether enough revenue has been earned to cover direct costs, including financing costs, provision for loan losses and operating expenses and indirect costs including adjusted cost of capital (Ledgerwood, 1999, pp.: 217). Due to the fact that donor support is not unlimited in reality, financial viability of micro finance services is crucial for expanding outreach to large numbers of the world's poor. Moreover, the retention of profits of microfinance operations is important to capitalize growth (CGAP, 1998).

This also indicates that financial services are priced so that their costs are covered and they do not disappear when donors or governments are no longer willing or capable to subsidize them (Christen, et al. 2004, P. 12). Especially by covering the financial costs they get access to the capital markets and to commercial capital which then allow MFIs to increase and grow their loan portfolio and clientele outreach. MFIs can as a rule serve their poor customers best by operating sustainably, rather than by generating losses that require constant infusions of

Undependable subsidies (Rosenberg et al. 2009).

Aremendareiz de Aghion and Morduch (2005, p. 16) describe the issue of donor support like this: “The hope for many is that microfinance programs will use the subsidies in their early start-up phases only, and, as scale economies and experience drive costs down, programs will eventually be able to operate without subsidy. Once free of subsidy, it is argued, the programs can grow without the secure of donor support (be it from governments or donors). To do this, programs will need to mobilize capital by taking savings deposits or by issuing bonds or institutions must become so profitable that they can obtain funds from commercial sources.

However it is not always guaranteed to obtain commercial debt because microfinance services and the unsecured lending to the poorest are still often seen as too risky by traditional banks (UNCDF, 2002, p: 21)**.** Two best practice examples of sustainable MFIs are Bank Rakyat

Indonesia and BancoSol in Bolivia. Both have a large commercial outreach to poor people while being consistently profitable in their business operations (Robinson 2002, p.3). MFIs are said to be sustainable and financially self-sufficient when their FSS ratio is above 100%.

Ensuring scale of outreach permanently is a function of financial self-sufficiency. The financial self-sufficiency ratio corrects for soft loans by making adjustments that price capital at its market cost. According to microfinance information exchange, (2010) financial self sufficiency

(FSS) can also be calculated as follows;

$$FSS = \frac{\text{adjusted financial revenue}}{\text{Adjusted (Financial expense + impairment loss on loans + operating expense)}}$$

Subsidy adjustments serve two purposes. First, since institutions vary considerably in the amount of subsidy they receive, adjustments that account for subsidies allow for useful comparison across institutions. Second, to the extent that operating on a commercial basis, free from subsidy, is an objective, subsidy adjustments represent how close an institution is to reaching this goal.

2.2. Determinant environmental factors of organizational success.

I. Leadership

Leadership is critical to the organization's success. Every organization needs leaders, and the optimal effectiveness of an organization can only reach if the organization has strong leadership.

Leaders should have some essential attributes such as vision, integrity, trust, selflessness, commitment, creative ability, toughness, communication ability, risk taking and visibility (Capowski, 1994).

In 1987 John Kotter, a professor of the Harvard Business School states that leadership goes beyond routine tasks to cope with change, whereas management is a regular formal responsibility to cope with routine complexity(Kotter, 1987). Kotter argues that leadership is a process that aims to develop a vision for the organization; align people with that vision; and motivate people to action through the basic need fulfillment (Kotter, 1990).

Katz asserts that leadership is a multi-directional influence relation (Katz, 1955). Leaders focus on motivation, and inspiration (Kotter, 1990). Leaders aim to create passion to follow their vision, to reach long term goals, take risks to accomplish common goals, and challenge the current status quo (Bennis and Nanus, 1997). The leader keeps an open eye on his followers' benefits, so people follow the leader voluntarily, and the leader directs the follower by using a transformational style (Bass, 1990).

II. Corporate Governance.

Governance, as we all know, is essentially about doing business and maximizing shareholders' wealth legally, ethically and on a sustainable basis. Being fair and to be seen as being fair to all the stakeholders without discrimination or bias, is the test for good governance.

Governance is the process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time. Aboard of directors is established to provide oversight and give direction to the managers of an institution. The board carries out this function on behalf of a third party, referred to as shareholders in the case of for-profit corporations.

Fundamental to good governance is the ability of individual directors to work in partnership to accomplish an effective balance between strategic and operational responsibilities. Effective governance occurs when a board is able to provide guidance to management in strategic issues and is effective in overseeing management carry out the agreed upon strategic plan. Management, in turn, assumes operational authority and ensures that the institution's program of activities responds to the direction jointly agreed upon with the board. The interplay between board and management centers on this relationship between strategy and operation, with the board basing its discourse on the strategy it has jointly defined with management and with management ensuring that operations are deployed effectively. Both sets of priorities are required to successfully navigate an institution through its short- and long-term evolution. The challenge of governance, therefore, is to employ the perspectives and experiences of the board and management to maximize their overall contribution to the institution's performance.

In the microfinance field, governance has assumed increasing importance for several reasons. First, as microfinance institutions (MFIs) grow in their outreach, the size of their assets, as reflected in their portfolio, also grows to considerable size. Ensuring effective management of this growth requires added input and involvement by a board. Additionally, increasing numbers of MFIs are becoming regulated and assuming the responsibilities and challenges of a regulated entity. Capturing deposits from savers and investors is perhaps their most important challenge and requires the greatest oversight. Finally, MFIs are operating in increasingly competitive markets, and maintaining or increasing market share has become an important component of their strategic objective.

Therefore, a clear articulation of the function of microfinance boards is essential for their effective governance.

III. Risk Management

Risk management is a continual process of systematically identifying, measuring, monitoring and managing risks in the organization.

Risk Management is a discipline at the core of every institution and encompasses all the activities that affect its risk profile. Risk management as commonly perceived does not mean minimizing risk; rather the goal of risk management is to optimize risk-reward trade-off. This can be achieved through putting in place an effective risk management framework which can adequately capture and manage all risks an institution is exposed to.

There is no single risk management system that would fit for all microfinance institutions. Consequently, NBE requires each microfinance institution to develop its own comprehensive risk management system tailored to its needs and circumstances. Their risk management program, however, should at a minimum cover the following most common risks: such as strategic risk, credit risk, liquidity risk, interest rate risk and operational risk.

Basic Elements of Risk management Framework

A risk management framework encompasses the scope of risks to be managed, the process/systems and procedures to manage those risks and the roles and responsibilities of individuals involved in risk management. The framework should be comprehensive enough to capture all risks an institution is exposed to and have flexibility to accommodate any change in business activities. Sound risk management system of each microfinance institution should at least contain the following key elements of a sound risk management system:

a) Active board and senior management oversight;
b) Adequate policies, procedures and limits;
c) Adequate risk measurement, monitoring and management information systems; and
d) Comprehensive internal controls.

IV. Regulatory framework.

The legislation stipulated mandatory registration of MFIs, disclosure of effective interest rate to the borrowers, ceilings on the interest rates and strict penalties for coercive recovery practices. Actors who expect a certain level of performance from the institution and whose position the board must consider. External actors can be divided into three groups: (1) providers of (2) types and (3) degrees of accountability from the institution.

Regulators set legal limits on leverage for a microfinance institution or procedural requirements, depending on how important they are to ensuring the long-term survival of the institution, might become part of the regular reporting made to the board by management. In outsider with appropriate expertise, such as legal counsel when abiding by regulations, or by incorporating such expertise directly into the board through an individual director. Performance criteria, so too will these actors react by investing or withdrawing their funds.

Regulatory authorities establish prescribed legal norms, which, if violated, will result in customers sensitive to the quality of service, stakeholders will buy when the MFI meets their needs or leave when they are dissatisfied. And as employees who demand certain compensation and quality of work environment, stakeholders will choose to work in the institution or seek other employment.

Every microfinance board should assess its environment. To whom is the microfinance institution externally accountable and in what way? Does the institution's adequately and appropriately respond to the expectations of relevant external actors? How does accountability differ among the four MFI corporate structures of nonprofit? , public, mutual, and private/for-profit? For each structure, a set of external actors exists whose expectations will serve as a framework for the board's work. External actors, and their demands on an institution, are continually changing and require the board's close and frequent assessment.

V. Access to the resource

Resources are a key success factor for MFIs. Kotler (2000) noted that a company needs resources to carry out business successfully. These include capital, labour, materials, machines, information and energy. Labour is an important resource in the MFI industry. Udeaje and Ibe (2006) identify Human Resources as a key success factor in MFI. They identify the ability to attract and retain human resources as a factor in the growth of an MFI. According to Rockart (1979), employee attraction and retention is a key element in attaining business success. It can be argued that organizations that are concerned with growth will spend considerable amount of time and money to attract, train and retain their employees. These employees are especially valuable assets to the institution. Other resources used by the MFI can be owned, leased or rented. Johnson and Scholes (2002) identified the availability of resources to an organization as a major plank in the strategic capability. These resources are the ones which are deployed to create competencies.

Finance or availability of cash is an important resource in Microfinance. Ledgerwood (1998) notes that the MFI sector has grown substantially since the 1980s. This growth has led

Microfinance institutions to provide saving services to their clients and access market funding sources rather than depend on donor funding as they initially did. She notes that some MFI access funding through Commercial banks in addition to the donors and partners they have. Availability of cash implies the ability to disburse loans to clients, which will attract clients to the institution and ensure a longer lasting relationship between the clients and the institution.

VI. Coverage and Marketing.

According to Wright et al (2003), the objectives of Microfinance institutions initially were to attract and retain clients which would enable them increase their market share while remaining profitable. They argue that this objective has now evolved to include understanding the external environment and incorporating this knowledge into their business strategy.

Pierce and Robinson (1997) suggest that a firm's growth is tied to its survival and probability. They argue that although the Profit Impact on Market Share (PIMS) studies have shown that growth in market share is correlated with profitability, other important forms of growth do exist. These include growth in new markets served; increase in the variety of products offered, and improvement in service offered which leads to improvements in a firm's competitive ability. This can also be correlated into the Microfinance industry as the more new good clients they get, the more profitable they become.

2.3. Empirical studies conducted in the area

Literature has shown that the success of microfinance in different nations has been largely rotated on a variety of factors ranging from information technology, innovation, staff training and motivation, management leadership, regulatory framework Information Technology & Innovation, prudent risk management, coverage, reach and marketing, resource access, corporate governance (Pinz and Helming, 2014; Kamukama et. al, 2010; Chirwa et al, 1999; Pinz & Helmont, 2014; Kaplan & Norton, 2009; Chowdhury, 2009).

2.3.1. MFI internal determinants.

A. Leadership

Literature shows that the history and track record of management is critical for the growth and sustainability of microfinance institutions. Chan (2010) identifies leadership experience and commitment as fundamental determinants of MFI success. Management is essential for the establishment of the organizational structure of the MFI, establishment of key alliances and important networks. It is critical to have a diversity of technical experience in the oversight arm of the MFI.

Some researchers have found that the degree of autonomy granted by top management is critical for the success of MFIs (Pinz & Helmont, 2014). Leadership that is energetic, highly focused, resourceful and accountable enhance innovation, development, success and sustainability of the institution (Ledgerwood & White, 2006). A good institutional structure ensures the separation of control and management.

B. Corporate Governance

Consumer and business confidence in an organization is heavily influenced by corporate governance practices of the organization. Sustainable development and growth of MFIs need strong leadership, vision and skills at corporate level (Ledgerwood & White, 2006) otherwise the public might lose confidence in the MFIs especially those that are accepting deposits from the public.

For many MFIs, ownership and management are not separated which hinders the practice of proper corporate governance practices. There has been consensus on the pivotal dependency of MFI performance on the ownership and governance structure which translates to what Ledgerwood and White (2006) refer to as ownership and governance risk especially for non-deposit taking institutions where there is no separation between ownership and control.

C. Risk Management

Risk management was defined by Baffa (1990) as the planning and controlling of all the conceivable elements of risks which are inherent in the daily operations of an organization in order to ensure the organization's continued existence as well as the realization of its set goals and objectives'. Meyer (2000) opined that in managing risk, banks must decide which risks to take, which to transfer and which to avoid.

There is need for effective risk management measures given the high exposure of MFIs to risk especially default. Most MFIs lack in risk management from risk identification, measurement, control and monitoring (Bounoula & Rihane, 2014; Kimando & Kihori, 2012; RBZ, 2015). There is need for proper screening of loan applicants to reduce default. Subprime loans always result in unsustainable levels of non-performing loans hence the need to constantly reexamine the lending process (Caudil, 2012 as cited in Pinz& Helming, 2014). Selection is crucial since asset quality ultimately depends on the institution's selection criteria.

D. Coverage, Reach and Marketing

For sustainability, MFIs need to have a high financial coverage of the market, which is mostly the poor and Small to Medium Enterprises (SMEs) that are mostly financially excluded, as well as high coverage of products. MFIs need to provide a range of tailored financial packages to the market so as to reach the entire target (Kimando & Kihoro, 2012; RBZ, 2015) which will enable the MFIs to achieve those large numbers necessary to achieve sustainability. There is also need to focus on larger geographical coverage and reach as opposed to concentrating in specific small communities.

Ngumbao(2012) presents that at the core of success of an MFI is a good marketing strategy. There is need to examine financial packages and the delivery system to better adapt to the ever dynamic client needs as well as enhance customer loyalty. Goal achievement for MFIs need proper marketing and competitive positioning (Ledgerwood & White, 2006) especially through branding and effectively presenting to consumers the core benefits or value proposition imbedded in securing a relationship with the MFI. Researchers stress the need to match the strength of the MFI with the identified market opportunities (Ledgerwood & White, 2006; Ngumbao, 2012).

2.3.2. MFI external determinants.

E. Resource Access

Focusing on the input side, the resource dependence model (Pfeffer and Salancik 1978; Yuchtman and Seashore 1967) defines success in terms of organizations' ability to acquire and maintain resources critical for their survival. Only if they manage to obtain the necessary inputs to support the production of outputs can they stay in the market over time. Literature has often revealed that key to the success of MFIs is the ability to access resources at an affordable and sustainable cost relative to the average yield of the portfolio. Many MFIs have difficulties in accessing and structuring funding (Ledgerwood & White, 2006) which have restrained their growth. There are obvious benefits from transforming a non- deposit taking MFI into a deposit taking so as to enhance the diversification and augmentation of existing funding sources. MFIs may need to consider seeking patient capital since using too much debt impacts on their return on equity hence the need to consider adopting an optimal capital structure that maximizes return to equity and minimizes the cost of capital (Ledgerwood & White, 2006).

F. Regulatory Framework

Boating & Agyel (2013) present that effective financial intermediation from MFIs requires a favorable and effective regulatory framework. There is need for government to eliminate unfair competition so as to encourage the growth of MFIs (Hubka & Zaidi, 2015; Crabb, 2008) as well as ensuring sustainability and maturity in the sector (Kimando & Kihoro, 2012). The regulation of lending rates should consider the sustainability of the MFIs who in most cases cannot survive under a low interest rate regime because they cannot sustain their cost and business model in an environment where the regulators have put a rate cap. It must be the prime focus of regulators to put in place policies and regulations that ensure prudence in the operation of MFIs (Kimando & Kihoro, 2012; Servinet al., 2012; Ledgerwood & White, 2006).

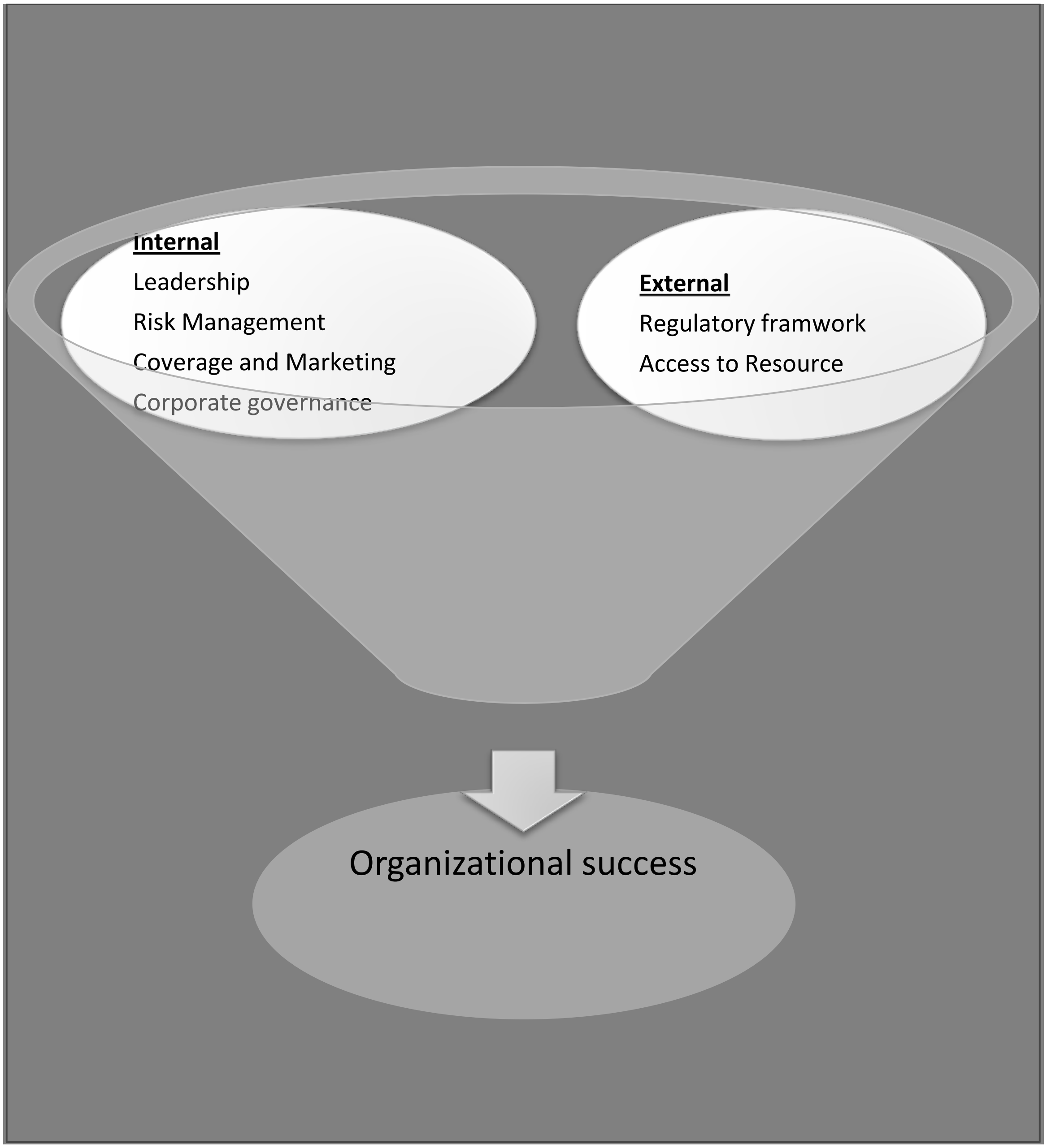
Key policy issues should enhance depositor protection through maintaining the safety and soundness of financial institutions and borrower protection through ensuring affordable interest rates (Ledgerwood & White, 2006). The control of MFIs should thus be in a manner that does not shut out small and innovative forms of micro financing.

Regulation should also enhance resource mobilization sources for micro credit institutions (Ledgerwood and White, 2006) and Institutional structures, such as social capital (Berhane et al. 2009), trust (Bastelaer and Leathers 2006), social customs (Arsyad 2006), and regulation (Mahajan and Ramola 1996; Olsen 2010)

2.4. Conceptual Framework of the study

Drawing from the above review of literature, we develop the following conceptual model for this study. This model only considers the main drivers of success for microfinance institutions. Other factors that are incidental are explored on their own.

Figure 1. A *Conceptualization framework of organizational success.*



2.5. Knowledge Gaps and summary

Even though, the aforementioned, the empirical reviews try to point out their findings about organizational success factors of MFI as per their study area, it doesn't necessarily mean that the finding of their country necessarily applies for another country, this is because each nations have their own culture, economic background, political environment and other considerations that needs to be taken in to account. When we see the studies conducted in Ethiopia, almost all research tries to assess from the perspective of MFI financial and social performances and their relationship. Further their research evaluate results of activities or process.

This study try to attempt to assess the determinant factor that leads to organizational success of MFIs from a management perspective.

This approach lays the groundwork for reliable success factor research in microfinance settings.

Finally, MFI success is reflected in effective adaptations to the organizational environment. Because microfinance is context specific (Yaron 1994), investigations of replications of MFI programs in different parts of the world may be subsumed under the organization–environment dimension of MFI success, because they analyze whether these programs manage to adapt to new social and cultural contexts.

Mostly in Ethiopia microfinance researchers uses financial results or rations such as return on equity (ROE), return on asset (ROA), repayment rate, portfolio at risk(PAR), loan loss rate (LLR)… etc. and also uses indicators such as financial self-sufficiency (FSS) and operational self-sufficiency (OSS) to evaluate the performance of MFI. Therefore this study will try to examine and capture factors that leads to the organizational success of MFI.

CHAPTER THREE

3. Research Methodology

3.1. Research Design

Burns and Grove (2003:195) defined a research design as a ' blue print for conducting a study with maximum control over factors that may interfere with the validity of the findings'. Parahoo (1997:142) described a research design as a ' plan that describes how, when and where data are to be collected and analyzed'. Polit et al (2001: 167) defined a research as ' the researchers overall for answering the research question or testing the research hypothesis'. This research design facilitates a better understanding of the impact of accounting information systems towards organizational performance. The design of this study is explanatory research method.

3.1.1. Method adopted: Quantitative research approach

Quantitative research is one in which the researcher mainly uses post positivist claims for developing knowledge (Creswell, 2009). Post positivism on which quantitative research design is based holds a deterministic philosophy in which causes probably determine effects or outcomes. Thus, the problems studied by post positivists reflect the need to identify and assess the causes that influence outcomes. As a result, quantitative research is a means for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. The goal is to measure and analyze causal relationships between variables within a value free framework. In line with this Creswell (2009) also noted that researchers who engage in quantitative research form of inquiry have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate findings.

The purpose of quantitative studies is for the researcher to project his or her findings onto the larger population through an objective process. To do so, as noted in Creswell (2009), in quantitative research approach data are collected by using two strategies of inquiry. The first is survey design which provides a quantitative or numeric description of trends, attitude or opinion of a population by studying a sample of that population. It includes cross-sectional and longitudinal studies using questionnaires or structured interviews for data collection, with the intent of generalizing from a sample to a population. The second type of design is experimental design which seeks to determine if a specific treatment influences an outcome. This impact is assessed by providing a specific treatment to one group and withholding it from another and then determining how both groups scored an outcome. In experiment design researcher may also identify a sample and generalize to a population (Creswell, 2009). Quantitative methods are a good fit for deductive approaches, in which a theory or hypothesis justifies the variables, the purpose statement. The hypothesis being tested and the phrasing of the research questions govern how data will be collected as well as the method of statistical analysis used to examine the data (Creswell, 2003). Quantitative data includes closed-ended information such as that found on attitude, behavior, or performance instruments. As a result, in order to generalize the findings to the MFIs existing in the country, in the current study the researcher adopted survey research method.

The purpose of this research is to evaluate the significant factors that lead to the success of Micro finance institutions in Ethiopia.

3.2. Survey design: Documentary analysis

Creswell (2003, p. 153) stated that the purpose of survey is to generalize description of trends, attitudes, or opinions from a sample to a population so that inferences can be made about some characteristic, attitude, or behavior of this population. Moreover, as noted in Fowler (1986), it is also reasonable to use survey design because of its benefits such as the economy of the design and the rapid turnaround in data collection and identifying attributes of a large population from a small group of individuals. Therefore, application of survey method for this study was logical. The survey was carried out by means of structured document review.

3.3. Population

Dormyel (2007), defines population as those units for which the findings of the survey are meant. From a statistical point of view, the term „population‟ refers to the total of items about which information is desired. The attributes that are the object of study are referred to as characteristics and the units possessing them are called as elementary units. The aggregate of such units is generally described as population (Kothari, 2004). The population in the study comprised of six MFIs in Ethiopia who are registered and licensed by National Bank of Ethiopia.

3.4. Sampling design: Sampling frame, sample size and Sampling technique

A sample design is a definite plan for obtaining a sample from the sampling frame. It refers to the technique or the procedure the researcher would adopt in selecting some sampling units from which inferences about the population is drawn (Kothari, 2004). Sampling frame is the elementary units or the group or cluster of such units may form the basis of sampling process in which case they are called as sampling units.

In this Research, the sample frame shall consists of MFIs established before 2010 and accordingly, started from report their financial and operational data to Association of Ethiopian Microfinance Institutions and National Bank of Ethiopia.

The sample size for this study is 6 which, is 17 % (6/35) of the total MFIs. Mugenda (2003) stated that a sample size of 10-30% of the total population is considered enough for the generalization of the findings to the whole study.

The following table presents the sample MFIs' will be taken in this research.

*Table 3.*1 Sample microfinance institution taken.

No	**Name of MFI**	**Year of establishment**
1	Vision Fund MFI	1998
2	Africa Village Financial service MFI	1998
3	PEACE MFI	2000
4	Addis Credit and Saving MFI	2000
5	SFPI MFI	1997
6	Agar MFI	2004

Source: AEMFI Occasional paper No.15

Sampling techniques means selecting a group that represents the entire population. In order to ensure homogeneity of subjects used in a sample and for easy matching of data, purposive sampling technique was employed and which is a non-probability approach. This study engages purposive non random sampling in selecting MFIs. This sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample which represents the universe (Kothari, 2004). The rationale behind adopting purposive sampling is to select MFIs whose data is available for the study.

3.5. Description of Variable and model specification.

This study used **multiple regression Model** and interpret with the help of descriptive statistics including standard deviation, mean, minimum, maximum and inferential statistics which is multiple regression analysis (significant test). To conduct this, the researcher used SPSS 20 for windows software package for primary data analysis. (The SPSS software were selected following its ability to help researchers to analyze research easily and efficiently (Brooks, 2008). This section explains the variables used as dependent and independent (explanatory) variables in this study. The definitions/measurements used for these variables are described and summarized under the following.

A. Dependent Variable

Organizational success (**OS**) is uses as the dependent variable for this study.

B. Independent Variable

To measure the organizational success of MFIs in Ethiopia, Six determinant factors will be used as independent variables which were extracted from different Studies. These independent variables listed in the table.

Table 1.2. Description of variables

No	Variables Name	Variables names in the regression model
1	Leadership	LS
2	Corporate governance	GOV
3	Risk management	RM
4	Access to resource	AR
5	Coverage and Marketing	CM
6	Regulatory framework	RF

Thus, parameters for the following regression are estimated upon the equation indicated below: OS = f (LS, GOV., RM, AR, CM, and RF)

Hence, the equation for this study can be stated as:

$$Y_i = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\beta_6X_6+U_i$$

$$OS_{\ i} =\beta_0+\beta_1LS_i+\beta_2GOV_i+\beta_3RM_i+\beta_4AR_i+\beta_5CM_i+\beta_6RF_i+U_i$$

Where;

OS; is organizational success (dependent variable)

$\beta_{0;}$ is constant term.

β_1, β_2, β_3, β_4, β_5, β_6 is coefficients' on independent variable.

LS; leadership independent

GOV; Corporate governance independent variable

RM; Risk management

AR; Access to resource

RF; Regular framework

CM; Coverage and marketing

I; denotes cross section unit i= 1…n and

Ui; is error term.

3.6. Reliability and Validity of the study.

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. In order to keep the validity of the study, researchers should be concerned with both external and internal validity. Internal validity refers to the extent to which the researcher can demonstrate that he has reliable and adequate evidence for the statement (Grix, 2004). External validity on the other hand stands for the extent to which the conclusion is generalized to the population (Yin, 1994). One of the common methods to test the reliability and validity of data collected through questionnaire is use of Cronbach's alpha coefficient. Lee Cronbach (1951) defines Reliability as an attribute of an instrument used to measure consistency. Consistency indicates that an instrument has constructive value it used to measure. A commonly accepted rule of thumb for describing internal consistency using Cronbach's alpha is as follows

Table 3.3 Lee Cronbach' Reliability Estimation Table

Cronbach's alpha	**Internal consistency**
a > 0.9	Excellent
0.8 < a < 0.9	Good
0.7 < a < 0.8	Acceptable
0.6 < a < 0.7	Questionable
0.5 < a < 0.6	Poor
a < 0.5	Unacceptable

The Cronbach‟s alpha for data collected for variables of organizational success which is indicated table 4.7 is 0.790 (approximated to 0.8).

Table 3.4. Reliability Statistics.

Cronbach's Alpha	N of Items
.790	6

Source; SPSS survey result

This indicates that the survey instrument used is highly valid and the data are highly consistent because the Cronbach‟s alpha is ranged in good measure.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATIONS

The previous chapter discussed appropriate methodologies to evaluate the determinant factors that leads to organizational success of MFI in Ethiopia. This chapter presents the result and analysis of the survey method. The chapter is organized into six sections. Section 4.1 presents Survey result, section 4.2 presents determinant factor result, section 4.3 Pearson correlation analysis, and section 4.4 presents the regression analysis 4.5 presents hypothesis testing and interpretation of the results 4.6 summary. A total of 90 questionnaires which dealt with the determinant factor of organizational success of MFI were distributed to a sample of MFI. However, only 57 questionnaires were collected questionnaires had usable responses. All the survey respondents were located in Addis Ababa.

4.1. Survey Results

This section presents the result and analyzes the data collected using self-administered questionnaire from sample of 57 employees of six micro finance institution. The section will be categorized as 4.1.1 Respondents profile; 4.1.2 Survey result

4.1.1. Respondents' Profile

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly the respondents were asked to respond to their level of education, age, gender category, marital status, work experience, and position. The information processed by SPSS is summarized as follows.

*Table 4.*1 Education level Categories of the Respondents

Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	12	21.1	21.1	21.1
	First degree	30	52.6	52.6	73.7
	Second degree	13	22.8	22.8	96.5
	Above second degree	2	3.5	3.5	100.0
	Total	57	100.0	100.0	

Source; SPSS Survey Results

The level of education that respondents possess contribute a worthy feedback to the research and also have significant impact to organizational success and to achieve the goal. These increase academic competence and experience of the managements or employees have a positive impact on organizational success. As summarized in the above table 4.1.shows that 52.2 % were qualified in first degree, 22.8% in second degree, 21.1% in diploma and 3.5% above second degree which is favorable. This is an indication that the respondents are also at adequate education level to understand the concept of the questionnaires and about success of organization.

Table 4.2.Age categories of the respondents

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30 years	5	8.8	8.8	8.8
	31-40 years	33	57.9	57.9	66.7
	41-50 years	16	28.1	28.1	94.7
	Above 50 years	3	5.3	5.3	100.0
	Total	57	100.0	100.0	

Source; SPSS survey result

Age category table shows the respondent's age. 57.9 % between 31 to 40years, 28.1% between 41 to 50years, 8.8% between 20-30years and 5.3% are above 50years age. Most of the respondents are full-fledged in life experience and they have taken responsibility to give reasonable responses.

Table 4.3. Gender categories of the respondents

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	40	70.2	70.2	70.2
	female	17	29.8	29.8	100.0
	Total	57	100.0	100.0	

Source; SPSS survey result

As indicated in the above table the gender proportion of female respondents is 29.8% while the male respondents were 70.2%. Though the ratio of the respondents not proportional because number of male employees are high in the MFI industry, therefore most of participated gender category in the survey are male. This enables the researcher that there is no bias in the survey instrument related to the gender of the respondents.

Table 4.4 Experiences of the Respondents

Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	10	17.5	17.5	17.5
	6-10 years	15	26.3	26.3	43.9
	11-15 years	24	42.1	42.1	86.0
	More than 15 years	8	14.0	14.0	100.0
	Total	57	100.0	100.0	

Source; SPSS Survey Results

Experience is one of the competences to understand about organizational success of a company. Experience also referred to as professional competence. In the literature it is indicated that qualification to have this competence by employees is one part of effective leadership and corporate governance in the organization. The more experienced employees are the more they understand about determinant factors of organizational success. Out of the survey, 42.1% and 14% of the respondents as indicated in table 4.4 were experience with 11 up to 15 years and more than 15 years' experiences respectively. The remaining 26.3% and 17.5% were at least has an experience between 6 to 10 years and 1 to 5 years respectively. This indicates that the employees working in the key areas of the organizations (the management level) are well experienced both to respond to the questionnaire, and to understand the question.

Table 4.5. Level of position of the Respondents

Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO	5	8.8	8.8	8.8
	Departments managers	28	49.1	49.1	57.9
	Senior experts	17	29.8	29.8	87.7
	others	7	12.3	12.3	100.0
	Total	57	100.0	100.0	

Source; SPSS Survey Results

Thus the survey made to assess areas of position of the respondents presented in table 4.5 indicated that 49.1% of the respondents were department managers, 8.8% are chief executive officer (CEO),29.8% are senior experts and12.3% are qualified in others. This means the respondents had at least had full knowledge and exposure about organization objective and success of the organization.

In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand about organizational success in the micro finance industry or in their Universes.

4.2 Determinant results for organizational success.

The study sought to identify the key success factors in the micro finance industry in Ethiopia. The respondents were asked to respond to statements describing the importance of key success factors in their organizations. The responses were ranked on a scale of 1 to 5. Where 1 "strongly disagree", 2 "disagree", 3 "neutral", 4 "agree" and 5 "strongly agree" represented respectively. The measure of central tendency of mean was used to measure the strength of the score for data analysis. The data was then presented in tabular form.

4.2.1. Organizational success.

Table 2.6. Organizational success result

No	Statement	N	Min.	Max.	Mean	Std.
1	Increasing financial performance consists of profitability (e.g. return on assets, return on equity, profit).	57	4	5	4.68	.469
2	Attaining Social performance (social objectives), such as poverty reduction and empowerment.	57	4	5	4.68	.469
3	Getting Financial viability (e.g., operational or financial self-sufficiency, subsidy dependence).	57	4	5	4.68	.469
4	Achieving/meeting organizational objectives.	57	4	5	4.68	.469
5	Strategic planning, a comprehensive policies, procedures, manuals, programs and guidelines are functional to the institution.	57	4	5	4.68	.469
6	Constructing Organizational structure.	57	4	5	4.68	.469

Table 4.6 indicated that all mean and standard deviation of organizational success statements response are the same that is 4.68 and .469 respectively. Which indicate that all the respondents agreed that the organization to be successful should increase financial performance, attain social performance, financially viable, set strategic plan, having compressive policies and procedure, construct organizational structure and accomplish all organizational objective.

4.2.2. Leadership.

Table 4.7. Leadership result.

No	Statement	N	Min.	Max.	Mean	Std.
1	Assist the institution in identifying tactics and solutions for reaching its goals.	57	3	5	4.56	.598
2	Having unique competencies (skilled and experienced professionals) as a MFI.	57	3	5	4.60	.530
3	Strict adherence to regulation, procedure and Credit policy of institution.	57	3	5	4.60	.530
4	Management seeks and gets regular feedback from internal and external stakeholders.	57	3	5	4.49	.710

Source; SPSS survey result

As indicated in above table the mean value of the response computed based on Likert scale indicated the average agreement of respondents on the leadership.

The overall mean of leadership can be approximated to 4.6. Which indicate majority of the respondents agreed that leadership is key factor for organizational success of MFI.

The highest mean 4.6 indicates that majority of respondents agreed that having unique competencies in MFI and strict adherence to procedures and policies of the institution helps to achieve organizational goal. The result of the survey indicated by mean value of 4.56 shows that the respondent's agreed that assist the institution in identifying tactics and solutions help to reach its goal.

The above table also indicated the least mean 4.49 indicates that the respondents agreed that managements seek and get regular feedback from internal and external stakeholder is important for organizational success.

4.2.3. Corporate governance.

Table 4.8. Corporate governance result.

No	Statement	N	Min.	Max.	Mean	Std.
1	Including individuals with some experience in the board can be very valuable to the institution.	57	3	5	4.35	.641
2	Board members and Managements have basic genuine commitment to the activities of the organization and willingness to set time apart to participate actively.	57	3	5	4.40	.563
3	Promote the institution in addressing legal issues, public relations, and fundraising concerns or topics related to technology or pricing.	57	3	5	4.28	.726
4	Identifying and setting long-terms goals for the institution.	57	3	5	4.37	.616

Source; SPSS survey result.

Table 4.8 indicated that average mean of corporate governance can be approximated to 4.35. Which indicate majority of the respondents agreed that corporate governance is important factor for organizational success of MFI.

The highest mean 4.4 indicates that majority of respondents agreed that board members and managements having basic genuine commitment to the activities of the organization helps to achieve organizational success. The result of the survey indicated by mean value of 4.37 shows that the respondent’s agreed that identifying and setting long term goals for the institution assist to meet its goal.

The above table also indicated the least mean 4.28 indicates that the respondents agreed that Promote the institution in addressing legal issues, public relations, and fundraising concerns or topics related to technology is important for organizational success.

4.2.4. Risk Management.

Table 4.9. Risk management result.

No	Statement	N	Min.	Max.	Mean	Std.
1	Existing adequate risk measurement, monitoring and management information systems.	57	3	5	4.47	.601
2	Establishing the mechanisms to effectively manage the risk in each area of business activity.	57	3	5	4.44	.655
3	Reports to managements are accurate and timely and contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution.	57	3	5	4.47	.601
4	key assumptions, data sources, and procedures used in measuring and monitoring risk are appropriate and adequately documented and tested for reliability on an On-going basis.	57	2	5	4.32	.783

Source; SPSS survey result

Table 4.9 indicated that average mean of risk management can be approximated to 4.5. Which indicate majority of the respondents agreed that risk management is significant factor for organizational success of MFI.

The highest mean 4.47 indicates that majority of respondents agreed that Existing adequate risk measurement, monitoring and management information systems and Reports to managements are accurate and timely and contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution supports to achieve its objective and organizational success.

The above table also indicated the least mean 4.32 indicates that the respondents agreed that key assumptions, data sources, and procedures used in measuring and monitoring risk are appropriate and adequately documented and tested for reliability on an on-going basis is important for organizational success.

4.2.5. Regulatory Framework.

Table 4.10. Regulatory framework result

No	Statement	N	Min.	Max.	Mean	Std.
1	Legal expertise are included to the institution/ to the board.	57	3	5	4.16	.621
2	The institution adequately and appropriately respond to the expectations of relevant external actors.	57	3	5	4.23	.535
3	In representing the interests of a third party and fulfilling their legal obligations.	57	2	5	4.02	.694
4	Separation of the role of the board chair and that of the managing director or chief executive officer (CEO).	57	3	5	4.23	.567

Source; SPSS survey result

Table 4.10 indicated that average mean of regulatory framework can be approximated to 4.16. Which indicate majority of the respondents agreed that regulatory framework is important factor for organizational success of MFI.

The highest mean 4.23 indicates that majority of respondents agreed that the institution adequately and appropriately respond to the expectations of relevant external and Separation of the role of the board chair and that of the managing director or chief executive officer helps to achieve organizational success.

The above table also indicated the least mean 4.02 indicates that the respondents agreed that in representing the interests of a third party and fulfilling their legal obligations is important for organizational success.

4 2.6. Access to resources

Table 4.11. Access to resource result

No	Statement	N	Min.	Max.	Mean	Std.
1	Availability of capital, access to credit facilities.	57	4	5	4.54	.503
2	Availability of different supplies and equipment.	57	3	5	4.37	.672
3	Use appropriate management information system.	57	2	5	4.28	.881
4	Staffs of the institution are skilled labour, adequate and appropriate.	57	3	5	4.49	.601

Source; SPSS survey result

From the findings, table 4.12 the respondents attach a great importance to company resources. It was noted that the public perception of the company to be financially stable was given high significance mean 4.54 was also the factor of the company availability of capital access and credit facilities. Another factor given great weight mean 4.49 was the availability of appropriate skilled staff in the institution. The result of the survey indicated by mean value of 4.28 shows that the respondent's agreed that use of appropriate management information system assist to meet its goal.

The above table also indicated the least mean 4.37 indicates that the respondents agreed that availability of different supplies and is important to achieve organizational objectives.

4.2.7. Coverage and Marketing.

Table 4.12. Coverage and marketing result.

No	Statement	N	Min.	Max.	Mean	Std.
1	Company seeks and gets regular feedback from customers	57	2	5	3.88	.600
2	You offer unique services to your customers.	57	2	5	3.70	.680
3	You expect the market share to increase.	57	3	5	4.00	.500
4	It is important that loan portfolios increases annually	57	3	5	4.02	.481

Source; SPSS survey result

The findings from this section of the questionnaire show that coverage and marketing strategies are weak significant factor in the organizational success compared with other factor. This was an issue which was clarified as the initial response to the statement was that the institutions do not seeks feedback from customers. Loan Portfolio increases annually is great importance mean 4.02 in helping it to meet the targets. Another factors give weight mean 4.00 was increasing the market share.

The above table also indicated the least mean 3.7 indicates that the respondents agreed that offering unique services to your customers is important to achieve organizational objectives

4.3. Pearson Correlation Analysis.

In statistics, the Pearson correlation analysis is a measure of the correlation (linear dependence) between two variables, giving a value between +1 and -1 inclusive. It is widely used in the sciences as a measure of the strength of linear dependence between two variables. The p-value, in Pearson Correlation analysis, attempts to provide a measure of the strength of results of a test, in contrast to a simple reject or do not reject decision.

In Pearson correlation analysis the value of strength of relationship (r) plays an important role in determining the level of relationships among variables. The significance level, $p<0.05$ is also used to establish the relationship. This significance level shows that there is only 5 percent chance that the relationship does not exist, and 95 times out of 100 times the relationship among variables can be defined as having significant correlation.

The table below shows the results of the Pearson correlation analysis among the variables, testing of the hypotheses and interpretation of the Pearson correlation results would be presented in a separate section with the results of the regression analysis. Of the total of six explanatory variables tested in this study, there is a significant correlation between the variables (leadership, corporate governance, risk management, regulatory framework, access to resource and coverage and marketing) and the organizational success. The correlation between these six variables and organizational success has positive value. Based on the results in table.

There are positive relationships between dependent (organizational success) and all of the independent variables, these shows that all of the hypotheses are supported.

Table 4.13. Pearson correlation

Correlations							
		OS	LS	GOV	RM	RF	AR
OS	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	57					
LS	Pearson Correlation	.702**	1				
	Sig. (2-tailed)	.000					
	N	57	57				
GOV	Pearson Correlation	.296*	.120	1			
	Sig. (2-tailed)	.025	.375				
	N	57	57	57			
RM	Pearson Correlation	.411**	.394**	.330*	1		

	Sig. (2-tailed)	.002	.002	.012			
	N	57	57	57	57		
RF	Pearson Correlation	.334*	.333*	.039	.587**	1	
	Sig. (2-tailed)	.011	.011	.774	.000		
	N	57	57	57	57	57	
AR	Pearson Correlation	.277*	.394**	.143	.562**	.524**	1
	Sig. (2-tailed)	.037	.002	.290	.000	.000	
	N	57	57	57	57	57	57
CM	Pearson Correlation	.183	.180	.264*	.422**	.424**	.357**
	Sig. (2-tailed)	.173	.180	.047	.001	.001	.006
	N	57	57	57	57	57	57

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

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

Source; SPSS survey result

As shown in the above table, of the total of six explanatory variables tested in this study, there is a significant correlation between five of the independent variables (leadership, corporate governance, risk management, regulatory framework and access to resource) and the dependent variable i.e. organizational success of MFI in Ethiopian industries. The correlation between coverage and marketing and organizational success has a very week value. Based on the results in table 4.14 there are positive relationships between organizational success and all of the independent variables, these shows that most of the hypotheses are accepted.

4.4. Multiple Regression Analysis.

In this section, in examining the factors that could affect organizational success of MFI in Ethiopia, the researcher used a regression analysis to test the effect of six independent (explanatory) variables on the dependent (explained) variable i.e. the organizational success. Thus, in this study the researcher used multiple regression analysis, in which tests have been made to examine whether one or more independent variables influence the variation on dependent variable.

The functional relationship between variables in this study is therefore, the organizational success is a function of leadership, corporate governance, risk management, regulatory framework, access to resource and coverage and marketing. However, to show how well the model containing those of six explanatory variables actually explains the variations in the dependent variable, i.e. organizational success, it is necessary to test it through goodness of fit statistic.

Table 4.14. Testing the model through ANOVA (goodness of fit statistics)

A Nova						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.901	6	1.150	10.622	.000[b]
	Residual	5.414	50	.108		
	Total	12.316	56			

Source; SPSS survey result

The above table summarizes the information about the variation of the dependent variable explained by the existing model used for this study and the residual that indicates the variation of the dependent variable that are not captured by the model. It is observed that the independent variables give a significant effect on the dependent variable, where F-value is 10.622 with a p-value of less than 0.05 (i.e. $p<0.000$) indicating that, over all, the model used for the study is significantly good enough in explaining the variation on the dependent variable.

4.4.1. Goodness- of- fit.

To ensure the statistical adequacy of the model, the goodness of fit can also be measured by the square of the correlation coefficient also called R^2.

Table 4.15. Goodness of fit through R Square

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749[a]	.560	.508	.329

Source: SPSS regression result

As shown in the table above, both R2 and adjusted R2 measure the fitness of the model i.e. they measure the proportion of the variation in dependent variable explained by the model. But since adjusted R2 is the modification for the limitation of R2 the value of the adjusted R2 is considered to measure the fitness of the model. Thus, as it is shown on table 4.16, the value of adjusted R2 is 0.560, indicating that the independent variables in the model are explaining 56% variation on the dependent variables. Thus, we can understand that the model of the study is providing a good fit to the data. This outcome empirically indicates that the independent variables in this study are the major determinants of organization success.

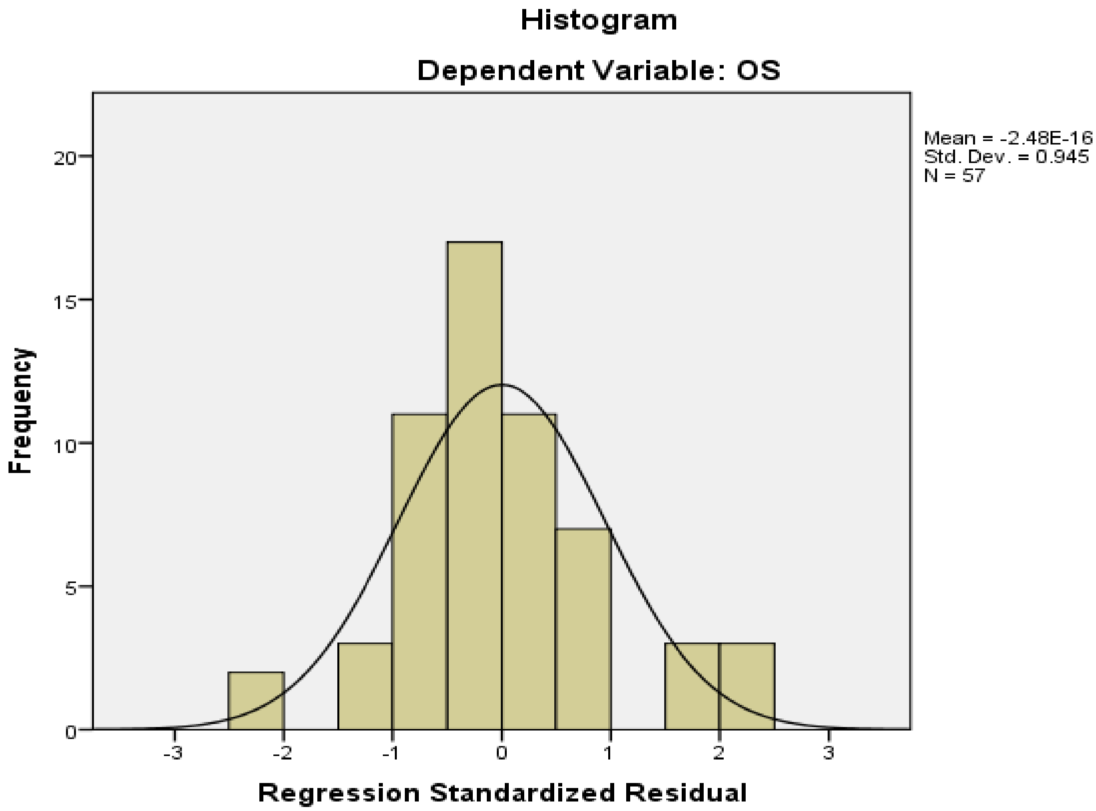
4.4.2. Test of Normality.

If the residuals are normally distributed, the histogram should be bell-shaped and the Bera-Jarque statistic would not be significant meaning disturbance to be normally distributed around the mean. This means that the p-value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level (Brooks, 2008).

Graphical methods to testing the normality assumptions can be conducted to provide a visual inspection of the normal distribution of a data prior to further interpretation of the regression analysis.

Therefore, for this study to test the normality assumption histogram as shown in below, provide important information about the shape of distribution, the scores are gathered around the middle of the continuum and a gradual symmetric decrease of frequency on either side of the center score occurs. Based on the survey result, shown on histogram it is a normal distribution.

Figure 2. Normality test



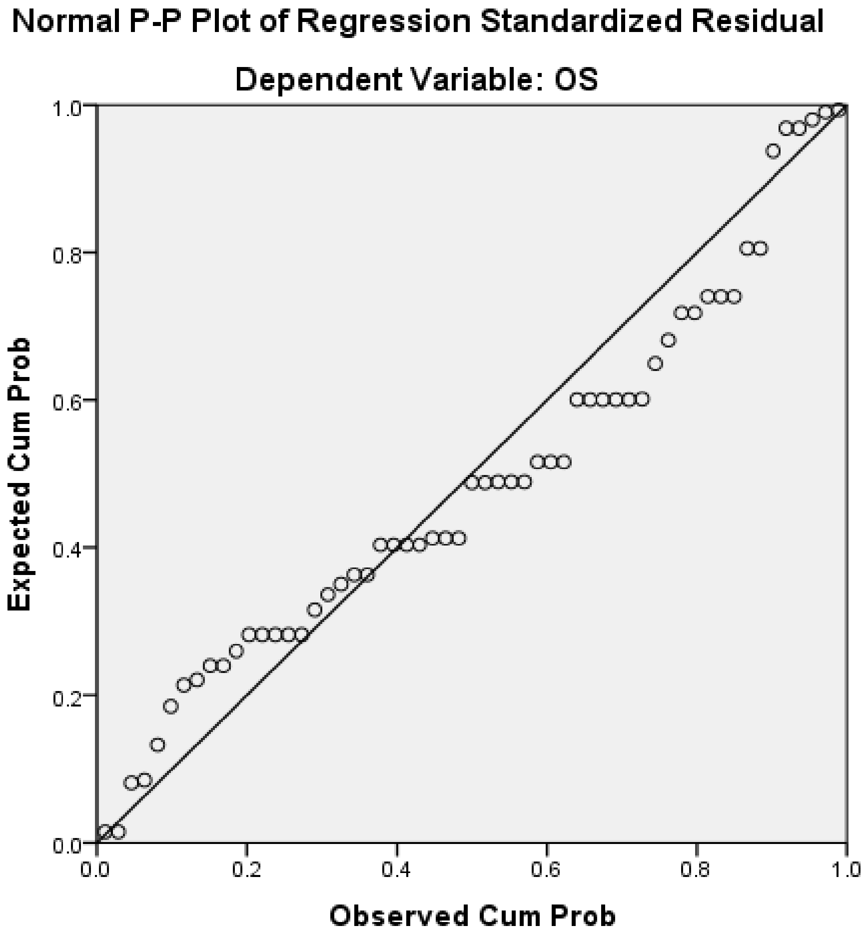
4.4.3. Homoscedasticity test.

According to Brooks, (2008) it has been assumed thus far that the variance of the errors is constant, σ2 - this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedacity.

Homoscedasticity is related to the assumption of normality because when the assumption of normality is met, the relationship between the variables is homoscedastic. It can be tested through the visual examination of the residual plots of the standard residual and predicted values. When the homoscedasticity assumption met, the residuals will present as being randomly scattered around the horizontal line depicting $\mu_i = 0$.

Therefore, for this study it is clear that the figure shown below is evident that the relationship between the variables is homoscedastic. Therefore, based on this statistics we fail to reject the null hypothesis that is indicated as there is no Heteroscedasticity for the models.

Figure 3 Homoscedasticity test.



Source; SPSS survey result

4.4.4 Autocorrelation

Autocorrelation error occurs when there is a serial correlation between residuals and their own past values. In this study, Durbin Watson test is used to carry out the autocorrelation test.

The Durbin Watson statistics, denoted by d, is the first and the widely used formal procedure developed for testing for autocorrelation using the least square residuals. To report the Durbin Watson, d, along with summary measure, such as R^2, adjusted R^2, t and F. The Durbin Watson statistics, d, falls between 0 and 4.if there is no serial correlation (of the first order), d is expected to be about 2. Therefore a rule of thumb, if d is found to 2 in an application, one may assume that there is no first order autocorrelation, either positive or negative. For this study the Durbin Watson statistics, d result shows about 2 thus, it implies that there is no autocorrelation problem in the model.

Table 4.16. Durbin Watson test.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.749[a]	.560	.508	.329	1.762

Source; SPSS survey result

4.4.5. Multicollinearity Test

An implicit assumption that is made when using the panel LS estimation method is that the explanatory variables (independent variable) are not correlated with one another. If there is no relationship between the explanatory variables (independent variable), they would be said to be orthogonal to one another. If the explanatory variables were orthogonal to one another, adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change (Brook, 2008). According to Gujarati, (2004) multicollinearity could only be a problem if the pair-wise correlation coefficient among regressors is above 0.90 Hailer et al, 2006 cited in Birhanu, (2012) which is not more or less the case in the study variables.

Table 4.17. Multicollinearity test

	LS	GOV	RM	RF	AR	CM
LS	1.000					
GOV	.120	1.000				
RM	.394	.330	1.000			
RF	.333	.039	.587	1.000		
AR	.394	.143	.562	.524	1.000	
CM	.180	.264	.422	.424	.357	1.000

Source; SPSS survey result

4.4.6. Regression Analysis

Table 4.18 below shows the results of the regression model. The result reveals that with the exception of coverage and marketing there exist a significant relationship between independent variables such as leadership, corporate governance, risk management, regulatory framework and access to resource and dependent variable.

Table 4.18.regression test

Variables	Coefficients	t	Prob.
Constant	.659	1.069	.290
Leadership	.620	6.175	.000
Corporate governance	.199	2.048	.046
Risk management	.221	.639	.026
Regulatory framework	.158	1.070	.048
Access to resource	.093	.936	.054
Coverage and marketing	.043	.400	.691

Source; SPSS survey result

As shown in the above table, of the total six explanatory variables tested in this study, leadership (p-value= 0.000), corporate governance (p-value=0.046), risk management (P-value=0.26), regulatory framework (p-value=0.48) and access to resource (p-value=0.54) were statistically significant at 5 percent or lower. In this study, there is insignificant positive relationship between coverage and marketing and dependent variable with a regression coefficient of 0.043, and P-value of 0.691.

4.5. Hypothesis Testing and Interpretation of the Results.

The last section of the study aims to find out the factors affecting the organizational success of MFI in Ethiopia. This particular section presents the results of the study indicated by statistics, using correlation and regression analysis. The correlation and regression between independent variables and organizational success were compared against the hypotheses tested in the investigation. The results show that there are significant relationship between independent variables such as leadership, corporate governance, risk management, regulatory framework, and access to resource, and the dependent variable i.e. organizational success. Even though most of the hypotheses are supported, the study found that there is a weak relationship between coverage and marketing and organizational success.

In the next section the effect of each independent variable tested under this study is discussed and analyzed based on the theoretical predictions, prior empirical studies and hypothesis formulated for this study.

4.5.1. Leadership

In this study, both the correlation and the regression result shows there is a significant positive relationship between leadership and organizational success. As it is presented on table 4.14, the Pearson correlation result shows a significant correlation between leadership and organizational success with correlation coefficient of r = 0.702 and significant at 0.01. This result is consistent with the hypothesis of the study.

4.5.2. Corporate governance

As it is presented on table 4.14, there is a positive correlation between organizational success and corporate governance with a correlation coefficient of 0.296 and significant at 0.05. The correlation between corporate governance and organizational success has a very good value.

This indicates that corporate governance influences the organizational success and the result is consistent with the hypothesis of the study.

4.5.3. Risk management

As it is presented on table 4.14, there is a positive correlation between risk management and organizational success with a correlation coefficient of 0.411 and significant at 0.01. The correlation between risk management and organizational success has a very good value. This indicates that risk management influence on the organizational success and the result is consistent with the hypothesis of the study.

4.5.4. Regulatory framework

In this study, the correlation result shows there is a significant positive relationship between regulatory framework and organizational success of MFI. As it is presented on table 4.14, the Pearson correlation result shows a significant correlation between regulatory framework and organizational success with correlation coefficient of 0.334 and significant at 0.05.

Thus, from the result it can be conclude that regulatory framework influences the organizational success. This result is consistent with the hypothesis of the study.

4.5.5. Access to resources

In this study, the correlation result shows there is a significant positive relationship between access to resource and organizational success of MFI. As it is presented on table 4.14, the Pearson correlation result shows a significant correlation between access to resource and organizational success with correlation coefficient of 0.277 and significant at 0.05.

Thus, from the result it can be conclude that access to resource influences the organizational success. This result is consistent with the hypothesis of the study.

4.5.6. Coverage and marketing

In this study the Pearson correlation results indicate that there is insignificant relationship between coverage and marketing and organizational success of MFI in Ethiopia. The results of the Pearson correlation indicate that the value for the correlation coefficient (r) is 0.183 and insignificant at 0.05. This indicates that this value is insignificant to further the relationship with organizational success. Therefore, the first hypothesis is rejected.

4.6. Summary of the Chapter

In this chapter the results of findings has been explained and discussed based on the analysis done on the data collected. The results of the study are discussed by triangulating the different sources results: questionnaire results. The Data collected using questionnaires were analyzed through descriptive statistics, frequency distribution, Correlation and multiple linear Regression analysis. The discussion attempted to accomplish the objectives of the study, answer the research questions and test the hypotheses. The factors that could influence the organizational success of MFI in Ethiopia has been analyzed in the chapter.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents a summary of the research findings, conclusion and recommendations of the study to determine the key success factors in the microfinance industry in Ethiopia.

Finally, suggestions for further research and recommendations are discussed

5.2. Summary of Findings

This study has established that there are several organizational success factors in the microfinance industry in Ethiopia. These factors have been identifies by the respondents in the findings presented in Chapter Four above. The respondents gave all the questions in the questionnaire responses whose weight scales from 1 to 5.

It is clear from the findings that leadership, corporate governance, risk management, regulatory framework and access to resource are seen by the analysis results and respondents result having a significant relationship with the organizational success of MFI.

It is clear from the findings that there are some factors which, coverage and marketing the analysis result showed it has insignificant relationship with organizational success and the respondents give lower weight compared to others.

The marketing strategies used by the micro finance institutions are keyed to maintain customer loyalty and ensure customers take more loans and increasing their customer numbers. Majority of the companies do not carry out advertisements in mass media, but use other methods such as sign posts.

Finally, the findings reveal that there are numerous factors that impact organizational success of MFI in Ethiopia. The study found statistically insignificant relationship between coverage and marketing and organizational success of MFI in Ethiopia. Based on the findings of the study, it is essential that the MFIs try to add value to their services should train the staffs in marketing management to attract the customer, to grow portfolio and which in turn may lead to economic growth.

5.3. Conclusions

The microfinance industry is a fast growing sector of the financial services industry if equipped in a well-organized system. This study set out to assess the determinants of organizational success of micro finance institutions in Ethiopian.

To conclude, this empirical study has been conducted to critically examine the factors that could influence on the organizational success of MFI in Ethiopia. The Pearson correlation and multiple linear regression analysis have been used for the study and the result reveals that variables including leadership, corporate governance, risk management, regulatory framework and access to resource have significant effect on the organizational success of MFI in Ethiopia.

The results are consistent with the findings of Chan (2010) identifies leadership experience and commitment as fundamental determinants of MFI success. (Ledgerwood & White, 2006) indicated leadership that is energetic, highly focused, resourceful and accountable enhance innovation, development, success and sustainability of the institution, and Consumer and business confidence in an organization is heavily influenced by corporate governance practices of the organization. Sustainable development and growth of MFIs need strong leadership, vision and skills at corporate level, Risk management was defined by Baffa (1990) as the planning and controlling of all the conceivable elements of risks which are inherent in the daily operations of an organization in order to ensure the organization's continued existence as well as the realization of its set goals and objectives', Boating & Agyel (2013) present that effective financial intermediation from MFIs requires a favorable and effective regulatory framework, and focusing on the input side, the resource dependence model (Pfeffer and Salancik 1978; Yuchtman and Seashore 1967) defines success in terms of organizations' ability to acquire and maintain resources critical for their survival.

This suggesting that the above stated determinants should support the organizational success of micro fiancé institutions in Ethiopia.

Even though most of the hypotheses are supported, the study found that there is statistically insignificant relationship between organizational success of MFI in Ethiopia and coverage and marketing therefore, the hypothesis is rejected.

The marketing strategies of Microfinance institutions in Ethiopia is backward and inefficient, even if some of them have not established the departments and there is no staffs in this field in the institution. This strategy ignores the wider reach to customer has not adequately exploited.

5.4. Recommendations

Microfinance institutions in Ethiopia need to recognize factors which will ensure high growth and profitability while ensuring they provide quality services to their customers. The institution which have in this sector could be increase their market share, profitable, viable in financial performance, increase social performance and add value to the macroeconomic in Ethiopia by implementing strategies which build upon the key organizational success factors analyzed in this study. Based on the study the following are specific areas that need to give emphasis to improve organizational success of micro finance institution in Ethiopia.

- It is good for MFIs to have managements and experts with appropriate level of business management experience and adequate skills would have a positive contribution for organizational success of MFIs.
- Industry specific experience of the board of directors plays a vital role for MFIs to get a competitive advantage and enhance performance. Consequently MFIs are recommended to have board of directors having an industry specific experience.
- Responsibility between the board and management should be clearly defined. This translates into the fundamental understanding by both board and management that the role of the board is at the strategic rather than the operating level.
- risk-monitoring activities must be supported by information systems that provide senior managers and directors with timely and accurately reports on the financial condition, operating performance and risk exposure of the microfinance institution, as well as with regular and sufficiently detailed reports for line managers engaged in the day to day management of the institution's activities.
- Establishes an organizational structure that facilitates the execution of its business plan.

- The management of the MFIs shall put in place mechanisms that assist in identification of problems in order to explore ways and means of raising additional fund of the right size and amount.
- MFI may attempt to grow and reduce its cost of funds quickly to secure a larger share of the market or enter new regions in the country to outdistance the competition. Boards must ensure that the institution's growth can be managed effectively, and that its systems and staff are equipped to maintain high asset quality.
- Developing Sound internal control system is another tool for risk management which has proved to be necessary and reliable in any financial institution. Therefore, ICS should be able to monitor, review and evaluate all business processes on regular basis to be able to determine the effectiveness or otherwise of the processes in tracking risk.
- Microfinance institutions should establish and communicate risk control mechanisms through policies, standards and procedures that define responsibility and authority.
- Microfinance institutions need to establish a management information system (MIS) that accurately identifies and measures risks at the inception of transactions and activities. It is equally important for management to establish MIS to monitor significant changes in risk profiles.
- Mechanisms should be established to allow for individual director participation, such as committees. This approach seeks to overcome the individual director's tendency toward passive involvement and to discourage the tendency of "group think" mentality.
- MFIs must set clear and measurable goals.
- The board must monitor the performance of the executive. Then, it must be able to identify managerial weaknesses and confront them when these adversely affect the institution.
- Strong information systems and communication channels must be in place within the institution to provide relevant and timely information to measure the

performance of the institution in areas such as portfolio quality, profitability, human resource management, and programmatic goals.

- Some level not seen sense of ownership and some of the employees are not clearly know the institutions goal and there is no transparency therefore, To ensure that management is held accountable for the activities of the organization, a board must first focus on the process and mechanisms it uses to identify a competent executive.
- The institutions need to reassess their marketing policy and strategies. The microfinance industry to a large extent has very little differentiation with most institutions giving services which are very similar with minimal differences. To counter these they should aim to be unique in service and service delivery. They can do this by further training and capacity building.

5.5. Issues for Future Research

The paper concludes by identifying two areas related to organizational success that require further analysis:

1. MFIs need to seriously examine their governance systems and align their practices with the overall objective of microfinance. and
2. The effect of rapid change in the microfinance field caused by competition, a movement toward the commercial model of microfinance, and increased participation by governments on MFIs' board composition, incentives, function, and leadership.

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1. QUESTIONNAIRES

ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MASTER OF SCIENCE IN
ACCOUNTING AND FINANCE

A research questioner prepared to the partial fulfillment of the research titled "significant factors that lead to the organizational success of MFI in Ethiopia."

Dear respondents

This questionnaire is prepared to managers or senior experts of sample MFIs. The objective of the questionnaire is to collect information about the significant factors that lead to organizational success of MFI in Ethiopia.

Note:

- No need of writing your name.
- The information you provide will be valuable for the successes of the research paper. Please be honest and objective while filling the questionnaires.
- The information you give is used only for academic purpose and will be kept confidential.
- Please answer the following question making a "✓" mark in the space provided.

Thank you in advance for your cooperation.

Part I: Background Information

1. Level of education

Diploma	☐	First Degree	☐
Second Degree	☐	above second degree	☐

2. Age.

20-30years	☐	31- 40years	☐
41-50years	☐	above 50years	☐

3. Gender.

Male ☐ Female ☐

4. Marital status.

Single ☐ Married ☐

5. Work experience in the MFIs

1-5 years ☐ 6-10 years ☐

11-15 years ☐ More than 15 years ☐

6. Your current position held. ______________________________

Part II: significant factors of organizational success of MFIs

1. What is your opinion about organizational success in your MFI?

   Organizational success of MFIs in Ethiopia are listed below. After you read each of those success, evaluate them in relation to your MFI experience and then put a tick **mark ✓ under** the choice scales below.

   5 = Strongly Agree, 4 = Agree, 3= Neutral, 2 = Disagree, 1= Strongly Disagree

No	Success/statements	Scales				
		5	4	3	2	1
1	Increasing financial performance consists of profitability (e.g., return to assets, return on equity, profit).					
2	Attaining Social performance (social objectives), such as poverty reduction and empowerment.					
3	Getting Financial viability (e.g., operational or financial self-sufficiency, subsidy dependence).					
4	Achieving/meeting organizational objectives.					
5	Strategic planning, a comprehensive policies, procedures, manuals, programs and guidelines are functional to the institution.					
6	Constructing Organizational structure.					

2. Please indicate the extent to which the following factors are considered significant or done by your organization to some extent and contributes to your organizational success as well as to your customers, using a tick "✓" mark on a scales of 1 up to 5;

Where, 5 = Strongly Agree, 4 = Agree 3 = Neutral

2 = Disagree 1 = Strongly Disagree

No	**Key success factors**	**Scales**				
		5	**4**	**3**	**2**	**1**
	Leadership					
7	Assist the institution in identifying tactics and solutions for reaching its goals.					
8	Having unique competencies (skilled and experienced professionals) as a MFI.					
9	Strict adherence to regulation, procedure and Credit policy of institution.					
10	Management seeks and gets regular feedback from internal and external stakeholders.					
	Governance					
11	Including individuals with some experience in the board can be very valuable to the institution.					
12	Board members and Managements have basic genuine commitment to the activities of the organization and willingness to set time apart to participate actively.					
13	Promote the institution in addressing legal issues, public relations, and fundraising concerns or topics related to technology or pricing.					
14	Identifying and setting long-terms goals for the institution.					
	Risk Management					
15	Existing adequate risk measurement, monitoring and management information systems.					
16	Establishing the mechanisms to effectively manage the					

	risk in each area of business activity.					
17	Reports to managements are accurate and timely and contain sufficient information for decision-makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution.					
18	Key assumptions, data sources, and procedures used in measuring and monitoring risk are appropriate and adequately documented and tested for reliability on an on-going basis.					
	Regulatory framework					
19	Legal expertise is included to the institution/ to the board.					
20	The institution adequately and appropriately responds to the expectations of relevant external actors.					
21	In representing the interests of a third party and fulfilling their legal obligations.					
22	Separation of the role of the board chair and that of the managing director or chief executive officer (CEO).					
	Access to Resource					
23	Availability of capital, access to credit facilities.					
24	Availability of different supplies and equipment.					
25	Use appropriate management information system.					
26	Staffs of the institution are skilled labour, adequate and appropriate.					
	Coverage and Marketing					
27	Company seeks and gets regular feedback from customers					
28	You offer unique services to your customers.					
29	You expect the market share to increase.					
30	It is important that loan portfolios increases annually					

THANK YOU!

2. SPSS SURVEY RESULT

Frequency Table

MFI					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Vision Fund MFI	10	17.5	17.5	17.5
	Agar MFI	10	17.5	17.5	35.1
	PEACEMFI	10	17.5	17.5	52.6
	Africa Village Financial Service MFI	7	12.3	12.3	64.9
	Addis credit and saving MFI	10	17.5	17.5	82.5
	SFPIMFI	10	17.5	17.5	100.0
	Total	57	100.0	100.0	

Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	12	21.1	21.1	21.1
	First degree	30	52.6	52.6	73.7
	Second degree	13	22.8	22.8	96.5
	Above second degree	2	3.5	3.5	100.0
	Total	57	100.0	100.0	

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30years	5	8.8	8.8	8.8
	31-40years	33	57.9	57.9	66.7
	41-50years	16	28.1	28.1	94.7
	above50years	3	5.3	5.3	100.0
	Total	57	100.0	100.0	

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	40	70.2	70.2	70.2
	female	17	29.8	29.8	100.0
	Total	57	100.0	100.0	

Marital status					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	single	21	36.8	36.8	36.8
	married	36	63.2	63.2	100.0
	Total	57	100.0	100.0	

Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5years	10	17.5	17.5	17.5
	6-10years	15	26.3	26.3	43.9
	11-15years	24	42.1	42.1	86.0
	morethan15years	8	14.0	14.0	100.0
	Total	57	100.0	100.0	

Position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO	5	8.8	8.8	8.8
	Departments managers	28	49.1	49.1	57.9
	Senior experts	17	29.8	29.8	87.7
	others	7	12.3	12.3	100.0
	Total	57	100.0	100.0	

OS					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	18	31.6	31.6	31.6
	Strongly agree	39	68.4	68.4	100.0
	Total	57	100.0	100.0	

LS					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	22	38.6	38.6	38.6
	Strongly agree	35	61.4	61.4	100.0
	Total	57	100.0	100.0	

GOV					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	32	56.1	56.1	56.1
	Strongly agree	25	43.9	43.9	100.0
	Total	57	100.0	100.0	

RM					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	neutral	2	3.5	3.5	3.5
	agree	24	42.1	42.1	45.6
	Strongly agree	31	54.4	54.4	100.0
	Total	57	100.0	100.0	

RF					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	neutral	1	1.8	1.8	1.8
	agree	38	66.7	66.7	68.4
	Strongly agree	18	31.6	31.6	100.0
	Total	57	100.0	100.0	

AR					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	neutral	2	3.5	3.5	3.5
	agree	24	42.1	42.1	45.6
	Strongly agree	31	54.4	54.4	100.0
	Total	57	100.0	100.0	

CM					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	neutral	6	10.5	10.5	10.5
	agree	44	77.2	77.2	87.7
	Strongly agree	7	12.3	12.3	100.0
	Total	57	100.0	100.0	

Reliability

Reliability Statistics

Cronbach's Alpha	N of Items
.790	6

Regression

Descriptive Statistics

	Mean	Std. Deviation	N
OS	4.68	.469	57
LS	4.61	.491	57
GOV	4.44	.501	57
RM	4.51	.571	57
RF	4.30	.499	57
AR	4.51	.571	57
CM	4.02	.481	57

Correlations

		OS	LS	GOV	RM	RF	AR
	OS	1.000	.702	.296	.411	.334	.277
	LS	.702	1.000	.120	.394	.333	.394
	GOV	.296	.120	1.000	.330	.039	.143
Pearson Correlation	RM	.411	.394	.330	1.000	.587	.562
	RF	.334	.333	.039	.587	1.000	.524
	AR	.277	.394	.143	.562	.524	1.000
	CM	.183	.180	.264	.422	.424	.357
	OS	.	.000	.013	.001	.006	.018
	LS	.000	.	.187	.001	.006	.001
	GOV	.013	.187	.	.006	.387	.145
Sig. (1-tailed)	RM	.001	.001	.006	.	.000	.000
	RF	.006	.006	.387	.000	.	.000
	AR	.018	.001	.145	.000	.000	.
	CM	.086	.090	.024	.001	.001	.003
	OS	57	57	57	57	57	57
	LS	57	57	57	57	57	57
	GOV	57	57	57	57	57	57
N	RM	57	57	57	57	57	57
	RF	57	57	57	57	57	57
	AR	57	57	57	57	57	57
	CM	57	57	57	57	57	57

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.749[a]	.560	.508	.329	.560	10.622	6

Model Summary[b]

Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	50[a]	.000	1.762

a. Predictors: (Constant), CM, LS, GOV, AR, RF, RM

b. Dependent Variable: OS

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.901	6	1.150	10.622	.000[b]
	Residual	5.414	50	.108		
	Total	12.316	56			

a. Dependent Variable: OS

b. Predictors: (Constant), CM, LS, GOV, AR, RF, RM

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.659	.617		1.069	.290
	LS	.620	.100	.650	6.175	.000
	GOV	.199	.097	.212	2.048	.046
	RM	.071	.112	.087	.639	.526
	RF	.128	.120	.137	1.070	.290
	AR	-.093	.100	-.114	-.936	.354
	CM	-.043	.107	-.044	-.400	.691

a. Dependent Variable: OS

Correlations

Correlations

		OS	LS	GOV	RM	RF	AR
OS	Pearson Correlation	1	.702**	.296*	.411**	.334*	.277*
	Sig. (2-tailed)		.000	.025	.002	.011	.037
	N	57	57	57	57	57	57
LS	Pearson Correlation	.702**	1	.120	.394**	.333*	.394**
	Sig. (2-tailed)	.000		.375	.002	.011	.002
	N	57	57	57	57	57	57
GOV	Pearson Correlation	.296*	.120	1	.330*	.039	.143
	Sig. (2-tailed)	.025	.375		.012	.774	.290
	N	57	57	57	57	57	57
RM	Pearson Correlation	.411**	.394**	.330*	1	.587**	.562**
	Sig. (2-tailed)	.002	.002	.012		.000	.000
	N	57	57	57	57	57	57
RF	Pearson Correlation	.334*	.333*	.039	.587**	1	.524**

	Sig. (2-tailed)	.011	.011	.774	.000		.000
	N	57	57	57	57	57	57
AR	Pearson Correlation	.277*	.394**	.143	.562**	.524**	1
	Sig. (2-tailed)	.037	.002	.290	.000	.000	
	N	57	57	57	57	57	57
CM	Pearson Correlation	.183	.180	.264*	.422**	.424**	.357**
	Sig. (2-tailed)	.173	.180	.047	.001	.001	.006
	N	57	57	57	57	57	57

Correlations

		CM
OS	Pearson Correlation	.183
	Sig. (2-tailed)	.173
	N	57
LS	Pearson Correlation	.180**
	Sig. (2-tailed)	.180
	N	57
GOV	Pearson Correlation	.264*
	Sig. (2-tailed)	.047
	N	57
RM	Pearson Correlation	.422**
	Sig. (2-tailed)	.001
	N	57
RF	Pearson Correlation	.424*
	Sig. (2-tailed)	.001
	N	57
AR	Pearson Correlation	.357*
	Sig. (2-tailed)	.006
	N	57
CM	Pearson Correlation	1
	Sig. (2-tailed)	
	N	57

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

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