



ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

**FACTORS AFFECTING THE PERFORMANCE OF MICROFINANCE
INSTITUTION: THE CASE OF SELECTED MICROFINANCE IN ADDIS
ABABA**

BY: - AMANUEL ALEMU

ADVISOR: - DR. GEMECHU WAKTOLA (PHD)

Thesis Submitted to Addis Ababa University, College of Business and Economics
in Partial Fulfillment of the Requirements for the Degree of Master of Business
Administration in Finance

ADDIS ABABA ETHIOPIA

JAN.2023

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CERTIFICATION

This is to certify that Amanuel Alemu has carried out his thesis on the topic “Factor affecting the performance of microfinance institution in the case of selected microfinance in Addis Ababa “under my supervision. In my opinion, this work qualifies for submission in partial fulfilment of the requirement for the award of degree of master of business administration in finance.

Signature _____

Dr. Gemechu Waktola

Project Advisor

DECLARATION

I declare that this thesis is my original work. It has not been submitted for any degree/diploma in any university. I have undertaken it independently with the advice and suggestion of my advisor for the thesis, Dr Gemechu Waktola. In carrying out of the thesis I have different source and material, which have been appropriately acknowledged.

Signature_____

Amanuel alemu

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ACRONYMS

AU	Africa Union
COSO	Committee of Sponsoring Organization
ERI	Employees Related Issues
FSS	Financial Self-Sufficiency
HDI	Human Development Index
FC	Firms Characteristics
ICS	Internal Control System
IFAD	International Fund for Agricultural Development
LS	Leadership Style
MFI	Micro Finance Institution
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
OSS	Operational Self-Sufficiency
ROA	Return on Asset
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences
UNDPHDR	United Nations Development Program's Human Development Report
UNECA	The United Nations Economic Commissions for Africa
WACC	Weighted Average Cost of Capital

ABSTRACT

MFIs are the backbone of many economies and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis. Despite their role in the economy recently microfinance has a big problem finding a perfect way to perform efficiently. The aim of this research is to assess those factors (internal control system, leadership style, firm's characteristics and employees related issues) affecting the performance of microfinance institution in Addis Ababa. This research is necessitated due to the limited literature on the assessment of those factors chosen on this study that affects performance of microfinance in Ethiopia specifically in Addis Ababa. The study adopts inferential analysis method in addition with the descriptive research design. The population of the research is 431 by assuming to select at least 1 respondent from each 431 branches. A total of about 70 employees (manager) in various branches in Addis Ababa are selected as sample for the study representing about 16.2% of the population. The study collects the data using Self-administer questionnaire with a five point likert scale by addressing all the issues. The research used random sampling technique to distribute the questionnaires. Furthermore, descriptions are made based on the results of the tables. Finally, in this study, several hypotheses and conceptual framework were developed on the bases of background literature and those hypotheses are tested by applying reliability statistics, One-way ANOVA, and Multiple Regression Analysis to draw a conclusion. The result show that internal control system and leadership style has positive moderate significant relationship with performance of microfinance institution, and there is a statically significant positive relationship between firm's characteristics and performance of microfinance institution, while employees related issues has statically strong significant positive relationship with performance of microfinance institution. The study conclude that the performance of MFIs is affected by various factors. To ensure their success and sustainability, MFIs need to focus highly on structured related, market related and capital related firm's characteristics. Also MFIs has to focus on internal control system and leadership style in addition to the employees related issues.

Key-words: microfinance, performance, internal control system, leadership style, firms characteristics, employees related issues, inferential analysis, liker scale, multiple regression analysis.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

The inequality of wealth distribution across the globe is no secret. More than 1.5 billion people in the world live on less than \$1 a day (purchasing power parity in December 2013 dollars). Nearly one in every 10 lives in poverty (according to the World Bank is an income of less than 1.9 dollar per day). Weiss & Montgomery (2005) defined poverty as a lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit). Traditionally according to Watkins (2018) this poor have been considered “high risk” and have not been well served by institution like banks, mutual funds and credit card companies.

To fulfill credit demand, rural households has to seek informal source of credit at a higher interest rate to support their production and consumption. Recent IFAD study estimated that the” Arata” interest can go as high as 400% in some instances. Khoi et al. (2013) added that, this informal credit leads the borrower in to a cycle of debt and poverty.

Lack of ability to obtain credit from the formal financial sector has long been viewed as the biggest obstacle to improve household s livelihood that are lived under poverty. Research has shown that having access to financial services is crucial for the poor as this helps them to smooth their consumption, generate business opportunities and improve their inclusion in the formal economy in the long run (Collins et al., 2009).

This sobering fact has driven various organizations such as united nation, World Bank or NGOs to initiate program targeted at reducing poverty through local organization which help individual’s moves out of poverty (Otero, 1999). The evidence of Watkins (2018) provide that microfinance is one of many tools innovated in the global effort to shrink the

wealth gap. Lidgerwood (1999) also mention that microfinance evolved as an approach to economic development intended to benefit low income women and men it expanded enormously in 1990s. The MFIs intention must be how to outreach and built sustainable institution to meet the financial need of the poor.

Microfinance refers to the offering of financial service to the poor and low income people. The term microfinance usually implies very small loans for low income clients for self-employment, often with the simultaneous collection of small amount of saving (Armendariz & Labie 2011). Around 500 million people in the world directly or indirectly are benefited from microfinance related operation. Microfinance institution provides mainly microcredit, micro saving and micro insurance (Khoi et al., 2013).

Micro credit is a process in which poor families borrow large amount of money at one time and repay the amount in a stream of small, manageable payment over a realistic time period (The World Bank, 2006). Micro saving is small amount of money saved by poor people with MFI. Micro insurance is a program which provides insurance service to the poor and low income population and small business (Khoi et al., 2013).

In Ethiopia microfinance services were introduced after demise of the Derg regime following the policy of economic liberalization. A regulatory frame work was put in place to license and supervise the institution (proclamation No. 40/1996) under the country central bank. Currently, according to the NBE (2020/21) there are 42 licensed MFIs reaching about 4.7 million active borrowers with an outstanding loan of approximately 64 billion birr the year ended 2021.

Out of 42 registered MFIs across the country 18 MFIs are very active in their activities by the end of the year 2020. These 18 MFIs are contributed almost all 98 per cent of total microfinance business capital and 97 percent of total outstanding loans of MFIs. These 18 MFIs are given more than 60 billion Birr to the needy during the year with approximately 4.5 million active borrowers. From those 42 microfinance institution 25 of them base their head office and operational center on the capital city Addis Ababa in which the research area covers (NBE).

Even if this is the case considering the potential demand, particularly in rural areas, this satisfies only an insignificant proportion due to both internal and external factors. Nowadays, the microfinance industry has been experiencing substantial changes in their operations. The sector has become more competitive due to the upsurge of other financing institutions and the rising need of customers. These conditions require a microfinance institution (MFI) to provide good quality services and it's expected to perform well in serving the various needs of the customers which are changing daily by offering to them quick, appropriate, and comfortable services.

However these institutions on the other hand faces several challenges related to their product, resource, organizational structure, governance and lack of proper information system to guide management's decision making and external challenge that cause their performance to be poor. The performance of MFI is mainly assessed in terms of self-sustainability (financial indicators) such as return on asset, portfolio quality, leverage, capital adequacy ratio, productivity, efficiency, profitability, and financial viability (Arsyad, 2005)

The cost efficiency should be the primary concern in order to achieve its self-sustainability of the institution (Khandker, 1998). However performance measurement of microfinance institution is based on not only self-sustainability, but also on the outreach of the institutions, measured by the coverage of target households and the extent of services they receive.

Different literature has shown the performance of microfinance institutions depend on various factors such as management leadership style (Kariuki and Wachira 2017) , staff training (Ramous et al., 2016), motivation of employees (Abdi Mohamud et al., 2017). innovation of products or services (Mugo, 2012), loan lending system (Gatuhu, 2013), government regulatory framework (Mersland, 2009), financial risk management (Kalu, et al., 2018) , marketing (Owine and Kibera 2015), corporate governance and auditing system (Ngari, 2017). The primary objective of this study is to assess those factors affecting the performance of microfinance institution in Addis Ababa.

1.2 Statement of the problem

MFIs are the backbone of many economies and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis. Some argued that the cause of poverty in developing economies among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (Jean-Luc, 2006). The poor's are continuously ignored from the formal banking sector of the economy (little field and Rosenberg 2004), therefor microfinance institution came to solve this problem of market failure.

To this end many developing economies have developed and have been providing credit to the poor through microfinance schemes. The experience of several Asian, African as well as Latin American countries could be a typical example for this (Zeller and Meyer 2002). It involves provision of financial services via micro finance services either to the working poor, those people who rely on their small business for income and those who are not considered bankable because they lack collateral to pledge as security or are considered high risk by the main stream or traditional banking sectors (Daley Harris, 2002).

Despite their role in the economy recently microfinance has a big problem finding a perfect way to perform efficiently. That is why poverty in Africa is still a main problem especially in sub-Saharan Africa particularly in Ethiopia. For example before the establishment of MFIs in Ethiopia the rank of Ethiopia in HDI (human development index) ranking was 151 out of 173 countries. The UNDP HDR (United Nations Development Program's Human Development Report) for 2019-20 ranked Ethiopia as 169th out of 189 countries on the HDI. This indicates the problem of poverty is still the issue of Ethiopia.

Recently different research implies that most MFI are facing a problem followed by decline as an institution. Mostly they decline when their age become old (Kipsha, 2013). Also it is argued that MFIs are facing sustainability problem for long without the back funding of donors, federal government, regional government or others. In addition MFIs

are facing an increased competition due to the industry growth and the market saturation as documented in many countries (Porteous, 2006). Therefore, most of them cannot sustain in the market so they go bankrupt and cannot repay the MFIs interest and sometimes the principal amount, lack cash, lack liquidity, and they are condemned to close.

According to the preliminary study investigate the financial sustainability of MFI is in danger, a holistic assessment of those factors affecting the overall performance has to be assessed. In addition more investigation has to be done to give some insights into how a MFIs' performances could be improved by making a recommendation on the significant level of those factors clearly affecting the performances of the institutions.

This research is believed to be significant in improving the performance of MFIs by clearly indicating those factors affecting the performance. Also, since majority of previous studies related to those factors mentioned on this studies were done in other country the research narrows this gap. Also those previous studies were mainly based on descriptive statistical analysis method, but this research will propose an inferential analytical method by creating a relation between the dependent and in dependent.

In addition, when previous researcher investigates in different city the number of MFIs was small, but now their number has been increased, so the result of this research might cause a change on the significant level proposed by other researcher. Therefore, there is a need to identify and understand the factors that impact the performance of microfinance institutions, in order to develop strategies that can enhance their effectiveness.

1.3 Objectives of the study

1.3.1 General objective

The major objective of the study is to examine those factors affecting the performance of microfinance institution in Ethiopia in case of Addis Ababa.

1.3.2 Specific objectives

- To determine the effect of internal control system of the firm on the performance of microfinance.
- To examine whether characteristics of a firm has a significant effect on the performance of microfinance.
- To find out the effect of leadership style on the performance of microfinance
- To identify whether employee related issues have a significant effect on performance of microfinance

1.4 Hypothesis

Based on the literature reviewed, the following hypothesis were developed to test.

H1: There is direct relationship between internal control system and performance of microfinance institution

H2: There is direct relationship between firm's characteristics and performance of microfinance institution

H3: There is direct relationship between leadership style and performance of microfinance institution

H4: There is direct relationship between employees related issue and performance of microfinance institution

1.5 Significance of the study

As it is stated in the previous section the finding of the study indicate those factors affecting the performance of selected microfinance institution in Addis Ababa. Hence the result of this study will be valuable to different stakeholders including researcher, managers, institutions etc. This study will make several contributions to knowledge seeker and practitioner on how performance is affected both financially and from employee's productivity perspectives. The result of the finding from the study will be used as a reference and pave a way to researcher for making of further related investigation.

In addition during the researching period different skills were developed through experience that will enable to carry out a related research more easily, rapidly, effectively and efficiently. The result of the study can be used by different level of managers in microfinance institution for decision making and to improve their performance by allocating the significant level of those determining factors for the purpose of development and growth of their institution.

1.6 Scope of the study

As stated in the introduction section of the study, currently there are 42 microfinance institution. Out of these only 25 microfinance institution operating in Addis Ababa city. The study was conducted in Ethiopia specifically by taking the capital city Addis Ababa as a case almost that contain more than half of the microfinance institution that are operating in the country. This study tries to assess four major factors affecting the performance of ten microfinance institution among those operating and located their head office in the city. The institution were selected based on: operational duration on the industry and their size with respect to the number of branch they have.

1.7 Limitations of the study

This study has some limitations, these are as follows

- The microfinance institution investigated were limited to only 10 out of 25 because the study consider only microfinance institution of Addis Ababa city. But for more conclusive result it will be better if other researcher in the future include all the 42 institution in Ethiopia regard less of their location and size for better indication level of those factors.
- The key indicator that we used on the study as a factor to challenge microfinance performance are internal control system, firms characteristics, leadership style and employees related issues only . But there are a number of factors that are not included in order to reduce the complexity, hardness, scope, cost and toughness of the research. Those factors include loan lending system, government regulatory framework, financial risk management etc. Even if the above mentioned are the key limitation of the study, it will be believed that the study represents the true factors that affect the performance of microfinance institution.

1.8 Assumptions of the study

It was perceived that information obtained from the managers was the most suitable for this study. It was also assumed that managers are knowledgeable about firm characteristics, internal control system, motivation, employees related issues and performance. In addition respondents answered the questionnaires with accuracy and with utmost honesty as requested. Finally it is assumed that respondents were representative of the target population.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 What is microfinance

The definition of microfinance institutions proposed by some authors and organizations are seemingly different from one another. However the essence of the definition is usually the same in which microfinance refer to the provision of financial services primarily savings and credit to the poor and low income households that don't have access to commercial banks (Arsyad, 2005)

Microfinance is simply defined as credit advance to the poor who normally do not have collateral to pledge.it involve provision of financial service via microfinance service either to the working poor or those people who rely on their small business for income and those who are not considered bankable because they lack collateral to pledge as a security or are considered a high risk by the main stream or traditional banking sectors (Daley Harris, 2002).

Robinson (2001) defines it as small scale financial services primarily credit and saving provided to people who farm or fish or herd who operate small enterprises or micro enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wage and commission; who gain income from renting out small amount of land, vehicles, draft animals, or machinery tools; and other individual and groups at the local level of developing countries both rural and urban area.

Parker et al., (2000) defines microfinance as provision of small loans (called "micro-credit") or savings services for people excluded from the formal banking system. While Steel and Addah (2004) as cited in (Alemayehu & Lemma, 2014) describe micro finance as small financial transactions with low income household and micro enterprises, using nonstandard methodologies such as character-based lending, group guarantees and short term loans.

Microfinance refers to the offering of financial service to the poor and low income people. The term microfinance usually implies very small loans for low income clients for self-employment, often with the simultaneous collection of small amount of saving (Armendariz & Labie 2011).

Finally “The definitions of microfinance given by different scholars contain some similar points. They describe microfinance as provision of a small amount of loan for the poor, specifically the rural poor living in developing country.”

2.2 Role of microfinance

According to Parker et al., (2000), in the right environments, microfinance accomplish many roles such as financier people’s economic choices, diversifying household income, making household less vulnerable to downturn in the economy or personal, smoothening income flows of the household, improve quality of life throughout the year and strengthen the economic position of women so that they can take greater control of decisions and events in their lives.

It has been suggested that it has the potential to be entirely transformative by providing capital for people especially women to help provide educational and health needs of their family (Kristof, 2009). Even if the level of achievement is not satisfactory we can say that MFIs have helped improve livelihood and eradicate extreme poverty in many country.

The involvement of MFIs in the provision of financial services with proper regulations and supervision will lead to a sustainable financial services and the end result will be a sustainable improvements of value and quality of poor people in the long run (Asare, 2018).

2.3 History of microfinance

The history of Microfinance can be traced back pioneered in Europe by giving loans to the poor people who lack collateral to borrow from the commercial banks. The idea of microfinance did not start recently but it started many years ago across the world. It started as "susu" in Ghana, "committee" in India, "tanda" in Mexico, "arisan" in Indonesia, "seettuva" in Sri Lanka, "tanomoshi-ko or mujin" in 11 pre-1945 Japan, "wichin gye" in Korea, "likelembas" in Congo, "xitique" in Mozambique and "pasanaku" in Bolivia, as well as many savings clubs and burial societies around all over the world (Corps, 2006).

Micro-credit financing starts with the assumption that the poor is not willing to pay high interest rates to have access to finance. The system uses the social trust as the collateral for this poor (Yenesew, 2018). Along with the growth in micro credit institutions, attention changed from just the provision of credit to the poor (micro credit), to the provision of other financial services such as savings and pensions. (MIX, 2005)

Robinson states that the 1980s represented a turning point in the history of microfinance in that MFIs such as Grameen Bank and BRI2 began to show that they could provide small loans and savings services profitably on a large scale. Around the year 1980s Robinson (2001) said that Microfinance institutions received no continuing subsidies, were commercially funded and fully sustainable, and could attain wide outreach to clients. That is why the year 1980s is said to be the turning point.

2.4 History of micro finance in ethiopia

Formally in Ethiopia started in 1994-95 (Ramanaiah & Gowri 2013). The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services Wolday (2000) as mentioned by (Geremew, 2019).

According to Gobezie (2005) the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions

(MFIs) in both rural and urban areas as it authorized them, among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business

The existing political and economic condition of the country contributes a lot for the development of the microfinance industry (Alemayehu & Lemma (2014). That is why the number of micro finance institutions as well as the number of clients is increasing from time to time.

Currently, there are 42 licensed MFIs reaching about more than 4.5 million active borrowers with an outstanding loan portfolio of approximately 60 billion birr. Considering the potential demand, particularly in rural areas, this satisfies only an insignificant proportion (NBE).

Table 1 (MFIs sector data)

<i>No</i>	<i>Item</i>	<i>September 30,2021</i>
1	No of Microfinance staff	36,450
2	No of Microfinance client	4,754,390
3	No of Microfinance Branch	2,195
4	No of male clients	2,301,533
5	No of female clients	2,468,560
6	loan for male (Amount in thousand)	36,416,573.30
7	loan for female(Amount in thousand)	27,527,646.20

2.5 Performance measurement of microfinance

The issue of performance evaluation is more crucial in financial firms like banks as they are mobilizing the resource of the society. MFIs also share similar properties with banks as they are regulated or supervised by a regulatory body due to the fact that they collect as a similar case in Ethiopia.

For most MFIs, dual goals exist. One goal is to contribute to development. This involves reaching more clients and poorer population strata, the main outreach “frontiers” of microfinance. The second goal is to do this in a way that achieves financial sustainability and independence from donors (Johnson et al., 2006).

Other scholar like Ferro-Luzzi & Weber (2006) also states that MFIs face a double challenge: not only do they have to provide financial services to the poor, but they also have to cover their costs in order to avoid bankruptcy. Both dimensions must therefore be taken into account in order to assess their performance. But most of the time there are different argument about which of this goal to be attained by the institution.

According to the study by Roy & Goswami (2013) both financial self-sufficiency and depth of outreach can be attained in the medium run. On the other hand, Hulme and Mosely (1996) as stated in (Derban, et.al. 2005) argued that there is inverse relationship between outreach and financial sustainability. Here the argument is higher outreach means higher transaction cost in order to get information about creditworthiness of clients and hence make MFI financially unsustainable

While Rhyne (1998) considers the two main goals of financial performance and outreach to be a” win-win” situation, claiming that those MFIs that follow the principles of good banking will also be those that alleviate the most poverty. But this proposition is far more complicated that the financially sound MFIs are not those who are serving the poorest clients.

Congo (2002) remarked that "The performance criteria and indicators used vary significantly from one organization to another, since they depend on the methodological approach, which in turn depends on the determination to give priority to the supply side or demand side of the financial intermediation.

There is what is called "Critical Micro-finance Triangle" that we need to look at to evaluate Micro-finance institutions based on their objective. The triangle can be depicted as (Mayer 2002) as stated by (Kereta, 2007). The triangle of performance measurements includes depth of outreach, financial viability and impact.

Financial Viability

The first criterion is self-sustainability, which can be achieved when the return on equity, net of any subsidy received, equals or exceeds the opportunity cost of the equity funds (Yaron, 1992). Financial viability refers to the ability of a MFI to cover its costs with earned revenue. To be financially viable a MFI cannot rely on donor funding to subsidize its operations.

As mentioned in Yitayaw (2020) and later mentioned by (Gashaw, 2014) to determine financial viability, a self-sufficiency indicator has to be calculated. Common financial viability indicators used in past studies are Financial Self-Sufficiency (FSS), Operational Self-Sufficiency (OSS), and even the profitability ratios such as Return on Asset (ROA), Return on Equity (ROE). Transition to viability is from operationally unviable (unable to cover operational costs from operational revenues) to operationally viable (able to cover operational costs from operational revenues) to financially viable (able to cover operational costs without subsidy). Failure to achieve OSS means lesser funds to loan to borrowers, hence, endangers the long-term existence of a MFI as an institution. OSS requires instituting strategies to optimize yield and/or achieve cost efficiency.

Depth of Outreach

The second criterion is the number of clients served and the variety of financial services provided. This is an outreach objective, which consists of scale and depth of outreach. Lafourcad et al., (2005) describes outreach as the effort of MFIs to extend microfinance services to the people who are underserved by financial institution. Scale of outreach refers to the number of clients served with different types of instrument and the depth of outreach refers to the type of clients reached and their level of poverty.

Several social performance (outreach) indicators exist in the literature. Schreiner (2002) summarized them into —Six Aspects‡: **Breadth of Outreach**‘ also called scale of outreach (number of clients served regardless of per capita loan amounts); **Scope of Outreach**‘ (types of financial services available); **Length of Outreach**‘ (persistence of microfinance service supply); **Worth of Outreach**‘ (customer satisfaction or customer loyalty); **Cost to Clients**‘ (sum of price and transaction costs) ; and **Depth of Outreach**‘ also called Quality of Outreach‘ (the extent particular target groups are affected such as the poor and women). Likewise, Zeller & Meyer (2002) emphasized six aspects of outreach measures: **depth, worth to users, cost to users, breadth, length** and **scope**.

Impact

Impact can be defined as the extent to which the life of MFIs’ clients changed in terms of income and wealth (Conning, 1999). Meyer (2002) also noted that assessment of impact of the MFIs on their clients is a very difficult and controversial way of evaluating the institutions performance. In order to measure the impact of the MFIs, it is mandatory to focus on "poverty".

Heather Weiss & Montgomery (2005) defined poverty as a lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit).

The problem is that it is not a simple task to measure the impact of MFIs on their clients in reducing poverty. This basically originates from reaching a consensus on what is expected from MFIs to improve the living standards of their clients. Many scholars have forwarded different ways of evaluating the social impact of the MFIs in reducing poverty. According to Zeller & Meyer (2002) "Social impact is defined as attributing specific effects, impacts, or benefits of specific interventions, in this case, improved access to financial services."

2.6 Factors affecting performance of microfinance

Different literature has shown the performance of microfinance institutions depend on various factors such as management leadership style (Kariuki and Wachira 2017) , staff training (Ramous et al., 2016), motivation of employees (Abdi Mohamud et al., 2017). innovation of products or services (Mugo, 2012), loan lending system (Gatuhu, 2013), government regulatory framework (Mersland, 2009), financial risk management (Kalu, et al., 2018) , marketing (Owine and Kibera 2015), corporate governance and auditing system (Ngari, 2017). But this research will focus on the major four factors that are considered crucial on different study and literature.

2.6.1 Internal control system

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws, regulations and protect the organization's reputation (Kaplan, 2008).

There are many controls that a MFI can institute to protect it resources against loss to improve performance. A collection of internal controls put in place by the MFI is what forms internal control system (ICS).

Africa report (2012) stated that poor control systems has led to huge investment loss through fraud and misuse of assets that are used to generate revenue while members and institutions have suffered big losses. For the internal control system to be effective the control procedure that the management establishes over the entity transaction and asset is essential.

A. Segregation of duty

In MFI set up accounting processes should be done to completion by separate individuals. This is so important that the research into internal controls and external auditor's judgments' has indicated that the assessment of separation of duties is a dominating factor in an auditors' evaluation of internal control structure Hamilton and Wright (2002) as cited in (Ngari, 2017).

A functional concept of internal control is that no one department or person should handle all aspects of a transaction from beginning to end. No one department or individual should perform more than one of the functions of authorizing transactions, recording transactions, and maintaining custody over assets.

Segregation of duties as however faces challenges particularly in small MFI's since it requires adequate staff (Ngari, 2017). Gramling et al., (2010) found that in 2008, a majority of smaller firms with material weaknesses in internal control reported one or more weaknesses. There could also be instances of collusion among staff in the system especially if the number is not big.

The number of the staff in relation to segregation of the duties is a conflicting factor since more staff to do different chores is additional cost to the MFI; on the other hand few staff will make one person to do many tasks (Stone, 2016) as cited in (Ngari, 2017). Therefore management needs to strike a balance between number of staff and extent of segregation of duties

B. Vouching (Adequate Documentation)

According to COSO (2004) vouching is a technical term, which refers to the inspection of documentary evidence supporting and substantiating a transaction, by an auditor. Depending on the particulars contained, documents can be treated differently. The officer vouching document should not only look at the details contained but also think about what might be missing from the document Bonner, et al (2006) as cited in (Ngari, 2017).

A system of well-designed forms and documents is necessary to create records of the activities of all departments like use of serial numbers for business documents or preparing documents in different colors. Adequate safeguarding and numerical control should be maintained at all times for unused pre numbered documents.

For the vouching to produce expected results in deterring errors and fraud the officer involved should possess rich work experience and at the same time apply professional skills.

Libby and Tan (2004) cited in (Ngari, 2017) put it that consultation from other officers especially when the officer attending to the accounting document was not involved in that process is very important. In some instances the payment voucher may have all necessary support documents and appear to be genuine but still there are parties with intention to defraud the MFI. For this reason the officer vouching the document can enhance consultation and transcend the vouching exercise to physical verification of the items delivered. This is very important to deter cases of collusion among players in the process.

Authorization of Transactions

Authorization of transactions may be either general or specific. General authorization occurs when management establishes criteria for acceptance of a certain type of transaction such as quantity discounts. Specific authorization occurs when transactions are authorized on an individual basis (e.g. sale of a major asset).

Carmichael (1999) cited in (Ngari, 2017) emphasized the importance of authorizer independence to the reporting of the inappropriate transactions. The number of

authorizers should be limited to minimize risk of theft or loss associated with numerous sources of authority. Authorization instills discipline for responsibility and accountability in achieving profitability objective.

Where more than one person are authorizing, their specimen signatures should be noted for acceptance throughout the MFI. Most MFI's have organized their procedures such that materiality of the amounts determines the seniority of the officer authorizing especially with loan amounts. Others have increased the number of authorizers to boost the objectivity and security of the amount involved. Segregation of custody and authorization can operate in a preventive or detective manner.

MFI's have given their officers different levels in terms of approving payments and advancing loans Protiviti (2007) as stated in (Ngari, 2017). This system is based on the order of seniority of the officers such that senior officers approve cheques bearing bigger amounts relative to junior officers.

Accounting documents pass through subsequent stages before money is released to the suppliers (COSO 1994). Clearance from the previous stage is a prerequisite to advance in the next level. Among the stages that the document passes through is approval. This is a reserve of the senior officer where the document is cleared for payments. Depending with the availability of the staff MFI can have more than one authorizer so that when one is not present the document can be attended by alternate officer.

C. Internal audit function (Independent checks on performance and proper valuation)

The accuracy of the work of various individuals in a company may be verified by independent checks on performance and valuation such as clerical checks, computer program controls, independent review report and reconciliations. An independent body should make periodic comparison of accounting records and the physical assets on hand. Any discrepancies thus obtained, when investigated, will uncover weakness either in

procedures for safeguarding assets or in maintaining the related accounting records-recorded accountability.

Additionally internal auditors and the audited activities should be independent of each other DeMarco (2000) as stated in (Ngari, 2017). Most of big MFI's have fully fledged internal audit department and therefore issues of transactions irregularities are addressed on time.

The work of internal auditors can be evaluated by external auditors. In so doing they can rely on work of internal auditors or otherwise. Mostly if the internal auditors are given considerable independence and establishment comprise of very knowledgeable and experienced staff then external auditor can rely on their work.

According to Gabriel (2017) cited in (Ngari, 2017) a comprehensive approach of internal audit looks at a number of areas. Some of these areas explored are operations review, financial review and compliance review.

Operational review is critical review of the operating processes and procedures that mitigate area specific risks. These reviews examine the use of resources to determine if they are being used in the most effective and efficient manner to fulfill the MFI's mission and objectives. **Secondly financial review** entails accounting and financial transactions to determine if commitments, authorizations, receipt and disbursement of funds are properly and accurately recorded and reported (COSO 2004). The other area covered by internal audit **is compliance review**; these are carried out to determine whether the MFI has complied with the financial regulations issued by the Government agencies and other financial regulatory institutions.

D. Safeguarding of assets and records

Physical access to assets and important records, documents, and blank forms should be limited to authorized personnel. Limit access to assets such as cash inventory and securities, cost documents and account receivable records, and blank forms like a blank

checks, blank sales invoices and shipping orders. Generally, direct physical access to assets may be controlled through the use of safes, locks, fences, guards, surveillance cameras, and security codes and so on.

Periodic comparisons may include counts of cash on hand, reconciliation of bank statements, counts of securities, confirmation of accounts receivable and payables, and other such comparison of operations. The frequency of such comparison is governed by the related costs and benefits. Yet, periodic comparison and action to correct errors lowers the risk that material misstatements remain the account.

2.6.2 Firms characteristics

Firm characteristics refer to the unique attributes that make an organization distinguishing and stand out above others in a particular industry or market. These are structure-related which include size, age and ownership; market related which include market orientation and diversification and capital-related that entails capital which plays an important role on business success (Kisengo, 2014).

A. Structure-Related Firm Characteristics

As stated by Kisengo (2014), this entails size, age and ownership. And the following literature are based mainly on his study. Enterprise size is significantly linked to better business performance. Larger enterprises were found to have a higher level of success. Firm size has also been shown to be related to industry-sunk costs, concentration, vertical integration, and overall industry profitability.

Larger microfinances are more likely to have more layers of management, greater number of departments, increased specialization of skills and functions, greater formalization, greater centralization, and greater bureaucracy than smaller microfinances (Daft (1995) cited in (Kisengo, 2014)).

The size of a firm is one of the major drivers of operational costs. Gonzalez (2007) cited in (Kisengo, 2014) points out that large microfinances are more productive in terms of

average cost per borrower and also have better write-off ratios. He also found that bigger microfinances are associated with smaller average costs making them more efficient. Similarly, others also stated that larger microfinances have higher ROA, ROE and operational self-sufficiency.

Small microfinances not only find it difficult to compete with larger MFIs in the market but they also face problems in obtaining finance, thereby hampering their ability to grow. For example, Heshmati in Usman and Zahid (2011) cited in (Kisengo, 2014) examined the relationship between size and sales growth among a large number of small firms in Sweden documented from 1993 through 1998 and found that sales growth was higher in larger firms compared to the smaller ones.

Bisher (2012) cited in (Kisengo, 2014). carried out study to determine the relationship between size and performance of financial institutions in Kenya. The findings of the study showed a weak relationship between size and performance but the relationship was statistically significant.

Age of the firm refers to the length of time that a firm has existed, usually expressed in years and considered an important determinant of performance. According to Usman and Zahid (2011) cited in (Kisengo, 2014). age related factors can be observed on three different levels: an old organization may have more customers which may drive economies of scale; higher average loan sizes resulting from repeat customers may improve the cost structure and more knowledge about customers may streamline processes.

In many occasions the longer staying of the microfinance in operation is directly proportional to persistence to unpleasant economic circumstances. A study by Beck and Klapper (2010) discovered that MFIs with less than 5 years in operation are less likely to rely on debt financing. This condition is happened because the younger MFIs face hardship and more costs in accessing external financing from lenders because of information asymmetry and their creditability to return their debt. Due to this condition

we can say that there is hypothetical existence of a positive relationship between microfinance's age and performance.

Different finding showed that foreign microfinances have higher profits than domestic microfinances in developing economies. Berger et al., (2005) cited in (Kisengo, 2014) postulates that 13 state-owned microfinances have poor long-term performance, but improve considerably after privatization. But also these foreign-owned microfinances generally suffer a disadvantage of high monitoring costs and information asymmetries compared to resident owned company in developing markets.

The studies of Bashir (2000) cited in (Kisengo, 2014) have concluded that foreign owned microfinances are more profitable than their domestic counterparts in developing countries and less profitable than domestic microfinances in industrial countries, perhaps due to benefits derived from tax breaks and other preferential treatments. Privately owned microfinances have also been assessed to be more profitable than their state owned (public) counterparts La Porta et al., (2002) cited in (Kisengo, 2014). They posit that public microfinances' low profitability is due to the fact that, rather than maximizing profits, they respond to a social mandate

B. Market-Related Firm Characteristics

Market-related variables include orientation and diversification. Market orientation places the customer at the center of all the activities of an organization. It aims at customer satisfaction which occurs when the products offered by the firms meet the 14 expectations of the customers. This appears as an important factor leading to superior performance in organizations. Market oriented microfinances are likely to achieve long-term profit by continuously providing superior value to customers through identifying their current and future needs, knowing the strengths and plans of competitors and responding to them in a coordinated manner (Kisengo, 2014).

Usman and Zahid (2011) cited in (Kisengo, 2014) point out that market orientation creates a unique culture inside an organization in which employees from all

departments/functions participate in identifying and satisfying the needs of the customers, keeping in account the strengths and activities of their competitors. . Customer satisfaction enables the MFIs to retain not only the existing customers for longer period but also help them in attracting new customers through the positive word of mouth communication of the current satisfied customers.

Singh as cited in Kisengo (2014) also point out to the role of existing satisfied customers in attracting new customers by stating that those marketers who understand the impact of customer satisfaction on firm performance will try to use the recommendations of the currently satisfied customers as the basis for securing future sales orders from new customers. Other researchers also assert that higher customer and employee satisfaction positively affects customer retention which leads to greater market share, an important predictor of profitability.

The positive link between market orientation and organizational performance measured in terms of sales growth and profitability suggest that a microfinance which determines the perceptions, needs and wants of the poor in the best manner and satisfies them by designing, communicating, pricing and delivering appropriate and competitively viable products is expected to have a higher growth in outreach and profitability Usman & Zahid, (2011) cited in (Kisengo, 2014).

Firm diversification refers to expansion into new areas of business, or expansion of a commercial organization into new areas. An important observation in different studies is that there seem to be no consistent or conclusive findings between firm diversification and performance. But Stimpert and Duhaime's (1997) results may argue for a negative relation between firm diversification and performance.

C. Capital-Related Firm Characteristics

Capital is material wealth in the form of money or property i.e. resources that can be used to generate economic wealth obtained either internally or externally. The capital structure

is described as the mix of debt and equity that a firm uses to finance its operations Gitman (2003) as cited in (Goyal, 2013)

Debt and equity are the two different sources of funds for microfinance. As both involve costs to the firm, there is a need for the firm to choose the right option that minimizes its costs. In most cases, firms tend to choose to create the right combination of debt and equity that might result in the lowest costs. Thus, the use of debt and equity proportions are the measurement tools for capital structure. Glen and Pinto (1998) cited in (Kisengo, 2014). describes that determining debt and equity is an important financial decisions faced by MFIs. Capital structure defined as total debt to total assets at book value influences both profitability and riskiness of the microfinance.

Hence, capital structure concerns the relative proportions of debt and equity financing that helps MFIs to minimize their overall financing cost (cost of capital). However, lowest cost (discount rate) is actually maximizing their market values (maximizing the present value of dividends). With this view, the discount rate is the cost of capital that can also be formulated as Weighted Average Cost of Capital (WACC) (Kisengo, 2014).

Glen and Pinto (1998) cited in (Kisengo, 2014). highlight the main reasons why to expect performance to be related to the capital intensity of the microfinance. The high degree of automation in higher capital-intensive firms may already enable these firms to have a high degree of inherent process control. Hence, the potential for process improvement from quality management practices may be less. On the other hand, in lower capitalintensive (more labor intensive) MFIs, the lack of automation and the dependence of process control on the skills and motivation of the workforce are likely to offer more opportunities for process improvements.

2.6.3 Leadership style

Leadership is the process of influencing others to commit their full potential towards achieving a value added or shared vision with both passion and integrity Jeremy, et al., (2012) as cited in(Kariuki and Wachira, 2017). Jeremy, et al. further state that it is the strength of the influence that motivates each team member to voluntarily co-operate with each other to achieve the objectives set by the leader. Leadership is therefore a crucial management skill; meaning that an effective leader should be able to encourage a group of people towards a common goal.

The relationship between the employee and the leader as well as the quality of the employees' performance will be influenced by the leadership style adopted by the leader. Kariuki and Wachira (2017), identify the following leadership style: transactional, laissez-faire, authoritarian, democratic and transformational

A. Transactional leadership

Transactional leadership style is whereby leaders focus mainly on the physical and the security needs of subordinates. Transaction literally means “exchange” therefore, transactional leadership deals with the exchange between leader and his followers. Kuhnert & Lewis (1987) Stated that transactional leadership is an exchange between followers and leaders desired outcomes by fulfilling the leader's interest and followers' expectations, which involves promises or commitments embedded by respect and trust. Transactional leadership style is relatively weakly associated with performance and is optimistically related to perception of organizational politics (Gadot, 2007).

B. Laissez-faire style

Laissez-faire style of leadership is passive and disengaged, exerting little influence. A leader using this style will either not intervene in the work affairs of subordinates or may completely avoid responsibilities as a superior and is unlikely to put in effort to build a relationship with them (Maria-Elena, 2014).

C. An authoritarian leadership style

An authoritarian leadership style, is also referred to as autocratic leadership style, is one where the leader directs group activity through unilateral decision making and personal control. Authoritarian leadership emphasizes 'absolute authority and control over subordinates and demands unquestionable obedience from subordinates. Authoritarian leaders strictly control the hierarchical order requiring subordinates to be submissive, dependent, and obedient (Pelligrini et al., 2010).

Authoritarian leaders tend to make decisions unilaterally, maintaining supervisor/subordinate distance and striving to enhance their personal status. They believe that they know more than other employees so they can ignore, disrespect, devalue, and discount subordinates' suggestions and contributions (Sun-Aryee et al., 2007).

D. democratic leadership style

A democratic leadership style is one involving group members in decision making processes. It is also known as participative leadership, is a type of leadership style in which members of the group take a more participative role in the decision-making process Kouzes & Posner (2002) cited in (Abu-Tineh et al., 2009). The democratic approach is characterized by an "I share" philosophy. Decisions are made within teams, with each member having equal inputs.

E. transformational leadership

According to Geib & Swenson, (2013) transformational leadership is a leadership style that seeks positive transformations in the followers and through the strategy and structure of the organization achieves the desired changes. Leadership that creates valuable and positive change in the followers is Transformational Leadership. Such a leader focuses on "transforming" others to help each other, to look out for each other, to encourage and be harmonious, and to pay attention towards organization as a whole. Employees can easily share their knowledge among them when organization used transformational leadership style.

Majority of the researchers had associated transformational leadership with employee's performance and job satisfaction and argued that transformational leadership can be the best predictor of employee performance. Transformational culture boosts both the organization and the employee's performance without enforcing extra burden (Rowold & Schlotz, 2009). The transformational leadership condition was connected with high task performance, higher collective support acuity, greater efficacy beliefs, lower harmful effect, and over threat assessment compared to the transactional conditions.

2.6.4 Employees related issues

A. motivation

According to Chaudhary & Sharma (2012) cited in (Abdi Mohamud et.al., 2107) basically motivation word is derived from "Motive". The meaning of "motive" is needs, wants, and the desire of the persons. So that "employees motivation mean the process in which organization inspiring our employee with the shape of rewards, bonus etc.

Motivation is the key of a successful organization to maintain the continuity of the work in a powerful manner and help organizations to survive. Motivation is finding a need inside the employees and help to achieve it in a smooth process. Motivating the staff leads to broaden their skill to meet the organizational demands. Each branch manager should have the responsibility to work with the staff to find out their individual needs and put them side by side to the organization needs. The only way to get people to like working hard is to motivate them (Abdi Mohamud, et.al., 2107).

Every individual in an organization is motivated by some different way. When talking in term of employee motivation, it can be simply defined as "Employee motivation is a reflection of the level of energy, commitment, and creativity that a company's workers bring to their jobs." The job of a manager in the workplace is to get things done through employees. To do this the manager should be able to motivate employees (Abdi Mohamud et.al., 2107). It is recommended that there is need for managers to have a

comprehensive motivation scheme in all aspects of an organization as this is directly proportional to the output of the employees.

B. performance appraisal (training)

Performance management represents a strategic and integrated approach geared towards delivering organizational success by improving the performance capabilities of both individuals and teams. Performance appraisal is concerned with the clarification of employees' work expectations, helping with individual employee growth and the collective growth of the entire workforce, as well as ensuring that pay structure designing incorporates performance (Ramos Agyare et.al., 2016).

Angelo and Robert (2006) as cited in (Ramos Agyare et.al., 2016) define performance appraisal as a discrete, formal, organizationally sanctioned event, usually not occurring more frequently than once or twice a year, which has clearly stated performance dimensions and/or criteria that are used in the evaluation process. It is also described as a formal process of employee monitoring which usually involves the evaluation of performance based on the judgments and opinions of subordinates, peers, supervisors, other managers and even workers themselves.

As a formal organization event, Performance appraisal is undertaken for certain reasons. Malcolm and Jackson (2002) as cited in (Ramos Agyare et.al., 2016) discuss three main reasons why performance appraisals are done: One of the reasons is what they term performance reviews. They describe performance reviews as an opportunity for managers to hold discussions with their employees with regards to progress in their current positions, their strengths and areas requiring further development. Secondly, they mention reward reviews and describe it as usually separate discussions but linked to the appraisal system in which the manager communicates decisions on rewards such as pay, benefits or promotion and provides feedback. Finally, they discuss potential reviews which represent discussions about employees' opportunities for progression, and the type of work they will be fitted for in the future and how this can be achieved.

In a related discussion, Boswell and Boudreau (2002) make mention of two typical reasons for performance appraisal: evaluative and developmental purposes. The evaluative function covers using performance appraisal for typical HR decisions like pay and salary administration, promotion, retention, termination, layoffs, giving employees the needed recognition, and identifying poor performance.

Boswell and Boudreau (2002) also describe developmental functions as geared towards improving individual employees by employing the use of appraisals to identify training deficits in employees, giving employees a clear perspective about what their strengths and weakness are, and to provide employees with feedback about their performance.

Performance appraisal is faced with certain challenges and has also been criticized by researchers and authors alike. The criticism includes evaluation criteria, evaluation errors and others which hinder effective Performance appraisal. Maroney and Buckley (1999) as cited in (Ramos Agyare et.al., 2016) assert that there is a gap between theory and practice and further criticize HR specialists for neglecting the use of psychometric tools in performance appraisal. Similarly, others identify evaluation criteria as a challenge faced by performance appraisal. He claims that the criteria could be vague and suggests that performance appraisal criteria be designed in quantifiable and measurable terms.

Walters (2005) as cited in (Ramos Agyare et.al., 2016) also discusses the lack of competence on the part of evaluators which results in rating and evaluation errors based on personal biases like stereotyping and halo effect. Maroney and Buckley (1999) cited in Ramos Agyare et.al., 2016) also argue that managers who carry out performance appraisals are usually not trained for the task and thus they hinder genuine feedback because subjectivity and the biases affect the data which is collected on the performance of employees.

2.7 Empirical literature

Many studies were conducted on the issue related to microfinance institutions performance, challenges their impact on the economic and social condition of the rural poor. According to the study by Abraham (2018) on the role of micro finance on poverty reduction Different respondent gives different view. He concluded that 47.5 of the respondent said that the microfinance institution do not reduce poverty while 52.5 of the respondent said MFI are capable of reducing poverty. This indicates that almost half of the respondent contradicts from the essential characteristics or objectives of MFI because they think MFI do not have any role in poverty reduction.

Those who said that the microfinance institution are not capable of reducing poverty give disadvantage as the way microfinance institution auction property of defaulter as one of the reason as to why microfinances institution do not reduce poverty. They said that when they auction once property they are more likely to leave individuals poorer than they were before borrow (Abraham, 2018). Various studies on different countries on the performance of the MFIs confirm this.

The study conducted by Kisengo (2014) indicates the existence of relationship between structure-related firm characteristics and performance. There is moderate positive relationship between structure related firm characteristics and organizational performance of MFIs. On the basis of these statistical findings it was found that structure related firm characteristics had significant positive effect on organizational performance of MFIs.

Kisengo (2014) also relates market-related firm characteristics and performance. There is moderate positive relationship between market related firm characteristics and organizational performance of MFIs. On the basis of these statistical findings it was found that market related firm characteristics have significant positive effect on organizational performance of MFIs.

Hypothesis on Kisengo (2014), states that a relationship exists between capital-related firm characteristics and performance. Since the p value (.035) is below .05 thus we accept

the alternative hypothesis and conclude that there is sufficient evidence, at 5% level of significance, that there is weak positive relationship between capital related firm characteristics and organizational performance of MFIs.

Various studies suggest that microfinances with higher levels of capital perform better than their undercapitalized peers. Smith, R et al., (2003) claim that there exists a positive link between a greater equity and profitability. Abreu and Mendes (2001) also trace a positive impact of equity level on profitability. Goddard et al., (2004) supports the prior finding of positive relationship between capital/asset ratio and earnings. According to Samuels and Smyth (2008), larger microfinances tend to have lower debt to equity ratios which lead mechanistically to lower levels of variance in return on shareholders' equity.

According to the finding of other study by Ngari, (2017) in the regression analysis of a study in internal control system, if the factors (authorization and approval of accounting transactions, segregation of duties, internal audit function, age and size of the MFI) were held constant, performance would be at 3.425. A unit increase in authorization and approval of accounting transactions would lead to an increase in performance by 0.018. A unit increase in segregation of duties would lead to an increase in performance by 0.123.

Ngari, (2017) also concluded that a unit increase in vouching would lead to an increase in performance by 0.114. A unit increase in internal audit function would increase the performance by 0.045. A unit increase in age of the MFI would lead to an increase in performance by 0.053. Finally a unit increase in size of the MFI would lead to an increase in performance by 1.486.

Leadership styles strongly affected employee productivity with the highest effect being on transactional leadership with a mean of 3.67, and 3.59 on democratic leadership, 3.58 on transformational leadership and 3.26 on autocratic leadership. Leadership styles also affected employee turnover with the highest effect being on Autocratic leadership with a mean of 3.22, followed by transformational leadership with a mean of 2.89, democratic leadership was at 2.85 and transactional leadership had 2.61. This implied that all the

leadership styles mentioned have a positive effect on the performance of microfinance institutions.

A study by Ojokuku, et al., (2012) also concluded that transformational leadership style and democratic leadership style have a positive effect on employees and their performance. While transactional leadership styles had a negative effect which is not significant to employees and their performance.

The relationship between employees' organizational commitment and the identification of training needs is positive with coefficient of 0.26 at $p < 0.01$ (2-tailed). The relationships between identification of training needs and commitment is significant with Beta =108, $p < 0.1$ Ramous Agyare (2016).

The results in correlation analysis of the study by Abdi Mohamud, et.al., (2107) have demonstrated that motivation of employees have positive relationship with employee performance, which is statistically significant (p-value). This means that enhancing employee motivation positively improves employee performance. Some employees were very little motivated as there is no recognition after good performance and no feedback after performance of duties.

2.8 Conceptual framework

The performance of Microfinance Institutions can be affected by different internal and external factors. Studies indicated the success or failure of the institutions is directly or indirectly related to different factors. Internal control system, firm's characteristics, leadership style and employees related issues play a great role on performance of microfinance institution. Internal control system related to the performance of the institution includes segregation of duty, vouching, authorization of transaction, internal audit function and safeguard of asset.

Firm's characteristics on other hand include structure related firms characteristics, market related firm's characteristics and capital related firm's characteristics. In addition the

performance can be affected by different types of leadership style: democratic, transformational, transactional, authoritarian and laissez-faire leadership style. Employees related issues have also an effect on the performance of microfinance institution that include motivation and performance appraisal.

Performance is related to financial viability, depth of outreach and impact we have to select a proxy variable among those three critical micro finance triangles. **And since many microfinance institutions consider financial viability as their performance measurement variable, here on this study financial viability will be used as performance measurement proxy variable.**

In addition different indicators are used to verify the financial viability including:

- **Profit Margin:-** The greater the ratio of net profit margin, the better for being role in the company's ability to profit quite high. Irawan (2011) in his research proved that the net profit margin (NPM) effect on profit growth. This is due to that the company has a ratio of Net Profit Margin (NPM) is high tend to have higher earnings growth as well and vice versa. When Net Profit Margin (NPM) is high indicates that the company is able to increase its business through the achievement of operating profit in the period. With the achievement of these earnings, investors will get a positive picture of the performance of the company so that investors can expect a high return on its equity.
- **Turnover:-** The asset turnover ratio measures the efficiency of a company's assets in generating revenue or sales. It compares the dollar amount of sales (revenues) to its total assets as an annualized percentage. Thus, to calculate the asset turnover ratio, divide net sales or revenue by the average total assets.
- **Market Share:-** Market share is complementary with a company growing or shrinking. When the market share of a company increases or decreases, it gives analysts information on how competitive that company's goods or services are at

that particular time. If the total market for a product or service grows, and a company maintains its market share, it means it is growing revenues at the same rate as the total market. If it is growing its market share, its revenue is growing faster than the total market revenue.

- **Asset Value:-** Asset value is an important component of a company's total value, and it can be computed in a number of ways. One approach determines asset value by calculating what those assets are worth to their owners.
- **Return on asset :-** According Prastowo (2002:86), as cited in (Heikal, et al 2014) Return on Assets (ROA) is used to measure the effectiveness of the company in generating profits by exploiting its assets. This ratio may give an indication of good or bad neighbor management in implementing cost control or management of his property. Return on Assets (ROA) is often used as a tool to measure the rate of return on total assets after interest expense and taxes, Brigham, (2001:109) as cited in (Heikal, et al 2014). The high Return On Assets (ROA) will be good for the company.
- **return on equity:-** Ratios Return on Equity (ROE) shows the extent to which companies manage their own capital (net worth) effectively, measure the profitability of the investment that has been made owners of their own capital or shareholders of the company. Ang (2001) which states that the higher the ratio Return on Equity (ROE) will increase the profit growth. Return on Equity (ROE) indicates the profitability of own capital or often referred to as business profitability Sawir, (2005: 20), as cited in(Heikal et. al,2014)
- **Financial Self-Sufficiency (FSS):-** is a measure of an institution's ability to generate sufficient revenue to cover its costs. Values below one indicate that it is not doing so. The financial self-sufficiency ratio is the best measures of financial performance because it offers a more complete summary of inputs and outputs than standard financial ratios such as return on assets or equity.

- **Operational Self-Sufficiency (OSS):-** The OSS rather than the financial self-sufficiency (FSS) can easily be related to the standard profitability definition of revenues minus associated expenses. Furthermore, the OSS helps determine whether an MFI is able to cover all its costs that incur by doing business. OSS also allows getting a subjective and global picture of the institution in terms of its financial performance Barres, (2006).

$$\text{OSS} = (\text{Operating Revenue}) / (\text{Operating Expenses} + \text{Financial Costs} + \text{Impairment Losses on Loans})$$

The OSS focuses on an MFI's core business revenues and expenses. Financial expenses and impairment losses on loans are included in this calculation because they are normal and significant costs of microfinance operation. The OSS indicates also if an MFI is able to continue business without further external subsidies or not. T

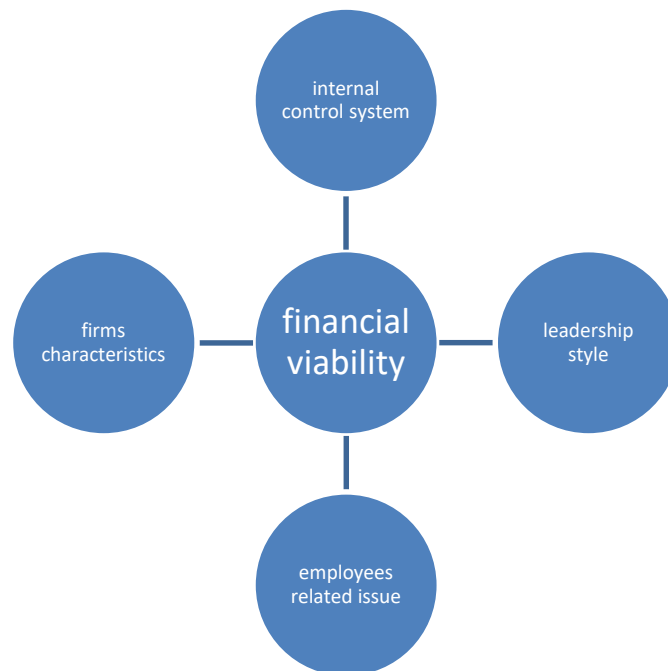


Figure 1 (conceptual framework)

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This section shows how the research is conducted and how the analysis of the data is performed. Generally the chapter contains description of the research design and approach, sampling design, method of data collection, and method of data analysis.

3.2 Research design and approach

A research design is a plan that describes how, when and where data are to be collected and analyzed Parahoo (1997) as cited in (Draper, 2004). This research uses a descriptive research design that is intended to provide a picture of a situation as it usually happen. This type of research is not intended to answer a question “how”, “when” and “why”, rather it explore on “what” question. In addition an inferential analysis method (multiple regression analysis) is used.

In this study both qualitative and quantitative approach (mixed Approach) are used. Qualitative research approach is used to assess the opinion of the respondents and Quantitative approach to indicate the frequency and percentage of the responses and to present those data’s in organized way.

The study focus on establishing the effect of internal control system, firm’s characteristics, leadership style and employees related issues on performance of microfinance institution in case of Addis Ababa.

3.3 Data sampling, collection and analysis

3.3.1 Target population

Target population is defined as the totality for observation and analysis by (Best and Kahn 1998). There for the target population in our cases is the ten microfinance institution found in Addis Ababa city. The information about the institutions is taken from the National Bank of Ethiopia data center. Random sampling method proportional to their number of branch is used for selecting our sample from the population because it is an effective technique for selecting the sample. Those ten MFI are selected by taking date of establishment, number of branch and their breadth as selecting criteria.

3.3.2 Data sampling

A sample design is used to obtain representative data which are not biased. A sample design is a definite plan for obtaining a sample from a given population.

3.3.2.1 Sampling technique

A stratified random sampling method is used by stratifying the sample with the name of their institution because this gives a true picture of the results and hence reduce being biased. Also a fair representation from each institution will be considered for sampling.

3.3.2.2 Determination of sample size

The numbers of Microfinance Institutions who operate and centered their head office in Addis Abba are almost twenty five. In order to assess different affecting factors in different institutions, a representative microfinance institutions are selected by considering different criteria. The first criteria is their date of establishment, because when they stay on the industry for a long period of time it is believed that the probability that their effect on the economy will increase. So assessing their effect may represent the entire industry more realistically than other representation. The other additional criteria is their financial and outreach capacity that can be represented by their capital and number of branch. By considering the above criteria 10 microfinance with a total of 431 branches are selected.

The unit of analysis will be individual manager, expert on branch and institutional level from selected 10 microfinance: Buusaa Gonofaa Micro Finnacing Sa. Co., Peace Micro Financing S. Co., Addis Credit and Saving Institution S.Co., Meklit Micro Finance Institution S.Co., Metemamen Micro Finnacing Institution S. Co., Aggar Micro Finance S. Co., Harbu Micro Financing Institution S. Co., Dynamic Micro Finnace S.Co., Specialized Financial and Promotional Institution S.Co and Rays Micro Finance Institutions.Co.

So by assuming to select at least 1 respondent from each branch we had estimated our population to be 431. Here, a closed-ended questionnaire is used to collect the main data for this research. Using the non-probability sampling technique to distribute the questionnaires, a total of about 70 employees (manager/experts) in various branches in Addis Ababa are selected as sample for the study representing about 16.2 % of the population. A sampling size of 5-20% is ideal to represent the entire population Amedeho (2002) as cited in (MITIKU, 2016).

3.3.3 Method of data collection

In this study both qualitative and quantitative approach (mixed Approach) are used. Qualitative research approach is used to assess the opinion of the respondents and Quantitative approach to indicate the frequency and percentage of the responses and to present those data's in organized way. For the research both primary and secondary data's are used. Secondary sources of data is gathered from international journals, books and by reviewing literature obtained from different sources. This method is chosen because; it is vital in providing background information and facts about factors affecting performance before primary data are to be collected.

Primary data is collected through questionnaire survey method and using "Likert Scale". Considering the nature of the study structured questionnaire designed with a 5 point Likert scale (Strongly disagree=1, Disagree=2, Neutral=3, Agree=4 and strongly agree=5).

Questionnaires are prepared and distributed to the target groups in order to obtain primary and reliable data from the respondents. Questionnaires are used to investigate attitudes, beliefs, feelings, opinions and knowledge. This tool of data collection is considered appropriate because it is versatile, it saves time to distribute the questionnaire and it is cost effective. Using questionnaires to collect data is a relatively quick way of gathering such information with relatively good response rates. The study decided to survey individual manager/ assistant managers/ field officers and other experts from different MFIs in Addis Ababa.

3.3.4 Data analysis and interpretation

Data analysis involves making meaning out of the data collected in the field. In this study both descriptive and inferential analysis tools are used. Descriptive analysis is carried out to determine frequency and percentage distributions, mean and standard deviation. The values of the outcome is presented in percentages, averages, and percentage averages. The result of the data analysis is displayed using the statistical tools of frequency charts, tables, and graphs.

The statistical analysis of data is performed using computer software such as Statistical Package for Social Sciences (SPSS), Stata etc.... Regression model, Pearson correlation and linear regression are used during interpretation. And different diagnostics test is performed in order to check whether the model faces different.

Inferential analysis using Correlation and regression models is also used to analyze data. Pearson Correlation is used to measure the relationship between the effects of the independent variables on the performance of MFIs. In addition linear regression analysis was applied to evaluate the statistical significance on the relationship that existed between the independent variables (internal control system, firm's characteristics, leadership style and employee's related issues) and the dependent variable (the performance of MFIs).

The gathered data was analyzed using descriptive statistics which include average, standard deviation, percentage and other variable. And also to examine the cause and effect relationship between those affecting factors and performance of microfinance institution multiple regression analysis is used .In order to perform the regression analysis the following model is specified and used:

The econometrics model is given by

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y: financial viability of microfinance institution

β_0 : Constant term

β_1 : Internal control system of the firm

β_2 : Firms characteristics

β_3 : Leadership style of the firm

β_4 : Employees related issue of the firm

e: Error term

N.B On this study financial viability is used as performance measurement variable.

CHAPTER FOUR

4. DISCUSSION AND ANALYSIS

4.1 Introduction

This chapter presents the results and findings of the study based on the four specific objectives. The first section presents the descriptive analysis of respondents' demographic information. The second section presents findings on the effects of internal control system on the financial performance of MFIs. The third section presents the findings on the effects of firm's characteristics on the financial performance of MFIs. The fourth section presents the findings on the effect of leadership style on the financial performance of MFIs. The fifth section presents the findings on the effect of employee's related issues on the financial performance of MFIs.

At the end of this chapter, the summary of the major findings is presented. A total of 70 questionnaires were administered to managers from the different department of MFIs in Addis Ababa. Out of the 70 questionnaires administered, 66 were filled by the respondents and returned. This indicates a response rate of 94.28% as presented in Figure 2. The high response rate indicates that the results of this study are reliable. The respondent rate is increased due to the semi-structured nature of the question making it easy for the respondents to fill.

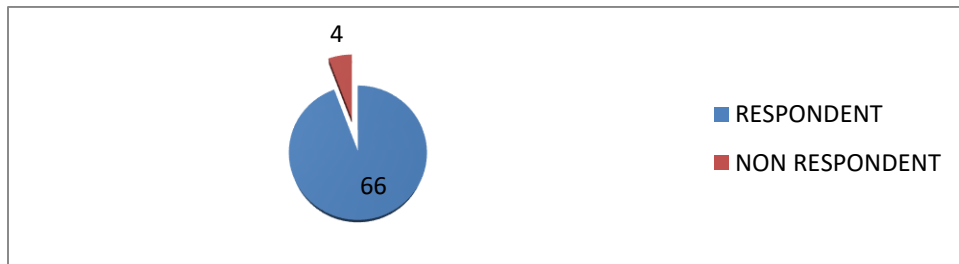


Figure 2. Respondent rate

4.2 Demographic Information

In this section, results of the demographic information sought from the respondents are presented. The demographic information included gender of the respondents, the age bracket, educational qualification, working experience and income level.

4.2.1 Classification of Respondents by Gender

The distribution of respondents by gender is shown in Table 2. The table shows that male respondents accounted for 72.7% of the respondents, whereas 27.3% of the respondents were female. This implies that there is gender biasness towards male respondent.

Gender of respondent

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MALE	48	72.7	72.7	72.7
	FEMALE	18	27.3	27.3	100.0
	Total	66	100.0	100.0	

Table 2 classification of respondent by gender

4.2.2 Classification of Respondents by Age

Table 3 shows the distribution of respondents by age bracket. Out of the 66 respondents, 6.1% were within the age bracket of 25 – 29 years, followed by 16.7% of respondents who were aged between 30 – 34 years and 50% of the respondents were between 35-39, whereas the remaining 7.3% were above 40. This indicates the respondents are not concentrated on a narrow age gap but rather the respond cover a wide range of respondents age.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-29	4	6.1	6.1	6.1
	30-34	11	16.7	16.7	22.7
	35-39	33	50.0	50.0	72.7
	40+	18	27.3	27.3	100.0
	Total	66	100.0	100.0	

Table 3. Age of manager

3.2.3 Classification of Respondents by Education qualification

Table 4 shows the distribution of the respondents by education qualification. The table reveals that 16.7% of the respondents had diploma while 21.2% of the respondent's degrees. The respondents with a post graduate qualification accounted 62.1%. This shows that the response can be taken as a result of proper analysis of what the question really is and what message is needed to transfer through the questionnaire. There for we can say the result is reliable.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	11	16.7	16.7	16.7
	Degree	14	21.2	21.2	37.9
	post graduate	41	62.1	62.1	100.0
	Total	66	100.0	100.0	

Table 4 educational qualification

4.2.4 Classification of Respondents by working experience

Table 5 shows the distribution of the respondents by working experience. The table shows that 19.7% of the respondents had an experience between 1to 5 years while 80.3%

of the respondents had a working experience of 5 years and above. This is an indication that most of the respondents have a thorough understanding of their company. Therefore, any information obtained from them would be reliable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	13	19.7	19.7	19.7
	5+	53	80.3	80.3	100.0
	Total	66	100.0	100.0	

Table 5 working experience

4.2.5 Classification of Respondents by income level

Table 6 shows the distribution of the respondents by the level of income they earn. The table shows that 16.7% of the respondents had an income of “between” 15000-20000 while 6.1% of the respondents had an income “between” 20000-25000. The respondents who had an income level “between” 25000-30000 accounted for 22.7%. While the remaining 54.5% has an income level of above 30000.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15000-20000	11	16.7	16.7	16.7
	20000-25000	4	6.1	6.1	22.7
	25000-30000	15	22.7	22.7	45.5
	30000+	36	54.5	54.5	100.0
	Total	66	100.0	100.0	

Table 6 income level

4.3 Diagnostic test

4.3.1 Multicollinearity

Under the assumption of ordinary least square method it is stated that the degree of correlation between independent variable in multiple regression model must not be perfect .so we have to check whether the stated assumption is true.

The VIF result from the Stata commands are nearly approximate 1, therefore we can say that multicollinearity is not a problem in the regression model

Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	Internal control System	.863	1.158
	firms characteristics	.871	1.148
	leadership style	.882	1.134
	employees related issues	.880	1.137
a. Dependent Variable: performance of micro finance			

Table 7 collinearity test for variables

4.3.2 Normality test

Under the assumption in OLS method it is stated that the distribution of the residual is assumed to be normal. But if this assumption is violated then our hypothesis is not reliable

If it is not normally distributed

- Skew – non-symmetrical – one tail longer than the other and biases the mean, in direction of skew
- Kurtosis – too flat or too peaked – mean not biased standard errors, and significance tests are biased

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Internal control System	66	2.40	4.60	3.7879	.48849	-.607	.295	.124	.582
firms characteristics	66	2.50	4.67	3.9040	.41454	-.603	.295	1.093	.582
leadership style	66	2.60	4.80	3.9394	.48608	-.470	.295	-.092	.582
employees related issues	66	2.50	5.00	4.0909	.58775	-.775	.295	.460	.582
performance of micro finance	66	3.08	4.49	3.9306	.25806	-.823	.295	1.724	.582
Valid N (list wise)	66								

Table 8 normality test of variables

According to the result we can conclude that the data are normally distributed.

4.4 Effect of internal control system on the Financial Performance of MFI

This section sought to establish the relationship between internal control system and the financial performance of MFIs from the respondents. Internal control system was measured by five items namely; segregation of duty, vouching (adequate documentation), authorizes independence, independence check on performance and safeguard of an asset. These items measured how internal control system had affected performance in terms of profit margin, turnover, market share, and asset value in the respondents MFIs.

4.4.1 Descriptive Statistics for the Effect of internal control system on the Performance of MFIs

Table 9 presents the frequency distribution of the respondents' level of agreement or disagreement for the effect of internal control system on the financial performance of their MFIs. The respondents were asked to answer the questions by indicating their opinion on given statements using a 5-point Likert scale of 1-5, where 1 = strongly disagree, 2 = disagree, 3 = Moderate, 4 = agree and 5 = strongly agree. The frequencies and percentages were computed, and the mean scores ranked. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

Effect of internal control system (ICS) on performance of MFI.		Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Total	M	SD
		1	2	3	4	5			
ICS through segregation of duty has effect on the performance of MFI positively by reducing control risk.	%	1.5	7.6	16.7	21.2	53	100	4.17	1.061
	F	1	5	11	14	35	66		
ICS based on vouching (adequate documentation) has effect on the performance of MFI by deterring error and fraud.	%	4.5	4.5	13.6	25.8	51.5	100	4.15	1.113
	F	3	3	9	17	34	66		
Authorizes independence to the reporting of the inappropriate transactions has effect on the performance of MFI by reducing fraud.	%	4.5	10.6	18.2	42.4	24.2	100	3.71	1.092
	F	3	7	12	28	16	66		
Independent checks on performance and valuation (such as clerical checks, computer program controls, independent review report and reconciliations) affect the performance of MFI.	%	4.5	10.6	47	31.8	6.1	100	3.24	0.895
	F	3	7	31	21	4	66		
Safeguard of asset (use of safes, locks, fences, guards, surveillance cameras, and security codes and so on) will affect the performance of MFI.	%	3	7.6	34.8	28.8	25.8	100	3.67	1.043
	F	2	5	23	19	17	66		

Table 9: Descriptive Statistics for the Effect of ICS on the Financial Performance of MFIs

The results in Table 9 indicates that 53% of the respondents felt that ICS through **segregation of duty has** had a very high effect on the performance in their MFI while 1.5% of the respondents felt that it had a very low effect on performance (M= 4.17, SD= 1.061). The respondents who felt that ICS based on **vouching (adequate documentation)** had affected the performance of their MFI moderately accounted for 13.6% while 51.5% of respondents agreed highly with the statement (M= 4.15, SD= 1.113). The respondents who felt that **Authorizes independence** to the reporting of the inappropriate transactions had a high effect on the performance of their MFI accounted for 24.2% while 4.5% of respondents felt that it had a low effect on the performance (M= 3.71, SD= 1.092).

The respondents who felt that **Independent checks on performance and valuation** (such as clerical checks, computer program controls, independent review report and reconciliations) had a high effect on the performance of their MFI accounted for 6.1% while 4.5% of respondents felt that it had a low effect on the performance (M= 3.24, SD= 0.895). The respondents who felt **Safeguard of asset** (use of safes, locks, fences, guards, surveillance cameras, and security codes and so on) had affected the performance of their MFI moderately accounted for 34.8% while 25.8% of respondents agreed highly with the statement (M= 3.67, SD= 1.043).

4.4.2 Correlation between internal control system and the Performance of MFIs

Pearson Correlation test was used to test the relationship between internal control system and the performance of MFIs. The results in Table 10 indicates that there is small (moderate) positive correlation between competition and the performance of MFIs, $r(66) = .28, p < .05$. There is evidence that the correlation exist between internal control system and performance of microfinance because the level of significant is 0.023 indicating that the correlation is statistically significant since it is below 0.05.

		Internal control System	performance of micro finance
Internal control System	Pearson Correlation	1	.280*
	Sig. (2-tailed)		.023
	N	66	66
performance of micro finance	Pearson Correlation	.280*	1
	Sig. (2-tailed)	.023	
	N	66	66
*. Correlation is significant at the 0.05 level (2-tailed).			

Table 10 Correlations for ICS

4.4.3 Regression analysis between internal control system and the Performance of MFIs

A simple linear regression was conducted to establish the extent to which internal control system affected the performance of MFIs. The findings of the model summary presented in Table 11 indicates that internal control system explained about 7.8% of the variability in the performance of MFIs ($R^2 = .078$, $F(1, 64) = 5.437$, $p < .05$) and the strength of the relationship ($r = .280$).

The R^2 values focused on explaining the observed variation in the dependent variable due to the independent variable. We have to note that R^2 is only a measure of explanation power not a measure of fit. Even if R^2 is small it can be significant (>0), indicating that the regression model has statistically significant explanatory power. Also here the R^2 value is low that doesn't mean there is no relationship between performance and internal control variable. But this may be due to missing or a reduced explanatory variable caused by hardness of specifying the exact variable from a plenty independent variables.

But we can say small R^2 value indicate the independent variable has to be replaced by other variable. Also small R^2 means this factor is not the major factor expressing the relationship between the dependent and independent variable, but it indicate we have missed certain factor and we have to include them. So if we include more factors (variables) we might get increased R^2 values.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.280 ^a	.078	.064	.24968

a. Predictors: (Constant), Internal control System

Table 11 Model Summary for ICS

The linear regression ANOVA results presented in Table 12 indicates that internal control system statistically significantly predicted the performance of MFIs $F(1, 64) = 5.437$, $p = 0.023$ since it is lower than 0.05. The P value is the probability that measure the evidence against the null hypothesis. So a lower values of 0.023 provide a strong evidence against the null hypothesis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.339	1	.339	5.437	.023 ^b
	Residual	3.990	64	.062		
	Total	4.329	65			

a. Dependent Variable: performance of micro finance

b. Predictors: (Constant), Internal control System

Table 12 ANOVA for ICS

The regressions coefficient findings presented in Table 13 indicates that internal control system predicted the performance of MFIs ($B = .148, p < .05$). This means that one unit of increase in internal control system would lead to an increase in the performance of MFIs by a unit of 0.148. From the coefficients, the general form of the linear regression model equation that was established was as follows; (Performance of MFIs = $3.371 + 0.148 \times \text{internal control system}$). To determine whether or not the level of rejecting sensitivity that slope is significant we go over to the significant value 0.023. We can say it is significant that the T-test comparing that slope to a slope of 0 is $T = 2.332$ with a significant value of 0.023, $p < 0.05$.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.371	.242		13.922	.000
	Internal control System	.148	.063	.280	2.332	.023

a. Dependent Variable: performance of micro finance

Table 13 Coefficients for ICS

4.5 Effect of firms characteristics on the Financial Performance of MFI

This section sought to establish the relationship between firm's characteristics and the financial performance of MFIs from the respondents. Firms characteristics was expressed by six items namely; size, length of time the firm existed, state of ownership, market orientation, firms character of diversification and capital structure. These items measured how firm's character had affected performance in terms of profit margin, turnover, market share, and asset value in the respondents MFIs.

4.5.1 Descriptive Statistics for the Effect of Credit Management on the Performance of MFIs

Table 14 presents the frequency distribution of the respondents' level of agreement or disagreement for the effect of firm's characteristics on the financial performance of their MFIs. The respondents were asked to answer the questions by indicating their opinion on given statements using a 5-point Likert scale of 1-5, where 1 = strongly disagree, 2 = disagree, 3 = Moderate, 4 = agree and 5 = strongly agree. The frequencies and percentages were computed, and the mean scores ranked. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

The results in Table 14 indicates that 51.5% of the respondents felt that Firms characteristics of size had a very high effect on the performance in their MFI while 3% of the respondents felt that it had a very low effect on performance ($M= 4.15$, $SD= 1.099$). The respondents who felt The length of time that a firm has existed, had affected the performance of their MFI moderately accounted for 9.1% while 57.6% of respondents agreed highly with the statement ($M= 4.39$, $SD= 0.839$). The respondents who felt that the state of ownership had a high effect on the performance of their MFI accounted for 25.8% while 4.5% of respondents felt that it had a low effect on the performance ($M= 3.79$, $SD= 1.074$).

The respondents who felt that. Market orientation (Identifying current and future needs, knowing the strengths and plans of competitors and responding to them) had a high effect on the performance of their MFI accounted for 3% while 6.1% of respondents felt that it had a low effect on the performance ($M= 3.14$, $SD= 0.857$). The respondents who felt diversification (expansion of a commercial organization into new areas) had affected the performance of their MFI moderately accounted for 16.7% while 28.8% of respondents agreed highly with the statement ($M= 3.79$, $SD= 1.089$). capital structure (mix of debt and equity) that a firm uses to finance its operations had a high effect on the performance of their MFI accounted for 51.5% while 1.5% of respondents felt that it had a low effect on the performance ($M= 4.17$, $SD= 1.032$).

Effect of firms characteristics on performance of MFI.		Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Total	M	SD
		1	2	3	4	5			
Firm's characteristics of size of the MFI affect the performance of MFI.	%	3	7.6	12.1	25.8	51.5	100	4.15	1.099
	F	2	5	8	17	34	66		
The length of time that a firm has existed, affect the performance of MFI.	%	0	4.5	9.1	28.8	57.6	100	4.39	0.839
	F	0	3	6	19	38	66		
The state of ownership (state-owned or private) have an effect on the performance of MFI.	%	4.5	9.1	15.2	45.5	25.8	100	3.79	1.074
	F	3	6	10	30	17	66		
Market orientation (Identifying current and future needs, knowing the strengths and plans of competitors) affect the performance of MFI.	%	6.1	9.1	53	28.8	3	100	3.14	0.857
	F	4	6	35	19	2	66		
Firm characters of diversification (into new areas) affect the performance financial self sufficiency of MFI.	%	3	12.1	16.7	39.4	28.8	100	3.79	1.089
	F	2	8	11	26	19	66		
Firm's capital structure (mix of debt and equity) affect the performance of MFI.	%	1.5	6.1	18.2	22.7	51.5	100	4.17	1.032
	F	1	4	12	15	34	66		

Table 14: Descriptive Statistics for the Effect of FC on the Performance of MFIs

4.5.2 Correlation between firm’s characteristics and the Performance of MFIs

Pearson Correlation test was used to test the relationship between firm’s characteristics and the performance of MFIs. The results in Table 15 indicates that there was a statistically significant strong positive correlation between firms characteristics and the performance of MFIs, $r(66) = .679$, $p < .05$. There is evidence that the correlation exist between firm’s characteristics and performance of microfinance because the level of significant is 0.000 indicating that the correlation is statistically significant since it is below 0.05. When we look to the relationship to firm’s characteristics and performance it is 0.679,

		firms characteristics	performance of micro finance
firms characteristics	Pearson Correlation	1	.679**
	Sig. (2-tailed)		.000
	N	66	66
performance of micro finance	Pearson Correlation	.679**	1
	Sig. (2-tailed)	.000	
	N	66	66

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

Table 15 Correlations for firms characteristics

4.5.3 Regression analysis between firm’s characteristics and the Performance of MFIs

Simple linear regression was conducted to establish the extent to which firms characteristics had an effect on the performance of MFIs. The findings of the model summary presented in Table 16 indicates that firms characteristics explained about

46.1% of the variability in the performance of MFIs ($R^2 = .461$, $F(1, 64) = 54.74$, $p < .05$) and the strength of the relationship ($r = .679$).

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.679 ^a	.461	.453		.19093
a. Predictors: (Constant), firms characteristics					

Table 16 Model Summary for firms characteristics

The linear regression ANOVA results presented in Table 17 indicates that firm's characteristics statistically significantly predicted the performance of MFIs $F(1, 64) = 54.742$, since it is lower than 0.05. The P value is the probability that measure the evidence against the null hypothesis. So a lower values of 0.0000 provide a strong evidence against the null hypothesis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.996	1	1.996	54.742	.000 ^b
	Residual	2.333	64	.036		
	Total	4.329	65			

a. Dependent Variable: performance of micro finance

b. Predictors: (Constant), firms characteristics

Table 17 ANOVA for firms characteristics

The regressions coefficient findings presented in Table 18 indicates that firms characteristics predicted the performance of MFIs ($B = .423$, $p < .05$). This means that one unit of increase in firms characteristics would lead to an increase in the performance of MFIs by a unit of 0.423. From the coefficients, the general form of the linear

regression model equation that was established was as follows; Performance of MFIs = 2.280 + 0.423 firms characteristics.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.280	.224		10.168	.000
	firms characteristics	.423	.057	.679	7.399	.000

a. Dependent Variable: performance of micro finance

Table 18 Coefficients for firms characteristics

4.6 Effect of leadership style on the Financial Performance of MFI

This section sought to establish the relationship between leadership style and the financial performance of MFIs from the respondents. Leadership style was expressed by five items namely; democratic, autocracy, transactional, laissez fair and transformational leaderships. These items measured how leadership style had affected performance in terms of profit margin, turnover, market share, and asset value in the respondents MFIs.

4.6.1 Descriptive Statistics for the Effect of leadership style on the Performance of MFIs

Table 19 presents the frequency distribution of the respondents' level of agreement or disagreement for the effect of leadership style on the financial performance of their MFIs. The respondents were asked to answer the questions by indicating their opinion on given statements using a 5-point Likert scale of 1-5, where 1 = strongly disagree, 2 = disagree, 3 = Moderate, 4 = agree and 5 = strongly agree. The frequencies and percentages were computed, and the mean scores ranked. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

Effect of leadership style on performance of MFI.		Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Total	M	SD
		1	2	3	4	5			
21. A democratic leadership style working with the member and the personnel in the sprite of one team affect the performance of MFI.	%	6.1	9.1	16.7	48.5	19.7	100	3.67	1.086
	F	4	6	11	32	13	66		
22. Autocracy Leadership without consulting anyone affect the performance of MFI.	%	6.1	13.6	6.1	43.9	30.3	100	3.79	1.196
	F	4	9	4	29	20	66		
24. A Transactional Leadership by providing consistent coaching support affect the performance of MFI	%	3	9.1	4.5	34.8	48.5	100	4.17	1.075
	F	2	6	3	23	32	66		
25. Laissez fair leaders providing employees with complete freedom to make decision has effect on performance of MFI.	%	4.5	1.5	6.1	36.4	51.5	100	4.29	0.989
	F	3	1	4	24	34	66		
27. Transformational leadership by Mentoring and empowering of employees by leader to achieve their full potential affect performance of MFI	%	4.5	9.1	12.1	51.5	22.7	100	3.79	1.045
	F	3	6	8	34	15	66		

Table 19: Descriptive Statistics for the Effect of LS on the Performance of MFIs

The results in Table 19 indicates that 19.7% of the respondents felt A democratic leadership style working with the member and the personnel in the sprite of one team had a very high effect on the performance of their MFI while 6.1% of the respondents felt that it had a low effect on performance (M= 3.67, SD= 1.086). The respondents who felt that Autocracy Leadership without consulting anyone had affected the performance of market share in their MFI moderately accounted for 6.1% while 30.3% of respondents agreed highly with the statement (M= 3.79, SD= 1.196).

The respondents who felt that A Transactional Leadership by providing consistent coaching support had a high effect on the performance of their MFI accounted for 48.5% while 3% of respondents felt it has a low effect (M= 4.17 SD= 1.075). The respondents who felt Laissez fair leaders providing employees with complete freedom to make decision had affected the performance of their MFI moderately accounted for 6.1% while 51.5% of respondents agreed highly with the statement (M= 4.29, SD= 0.989). The respondents who felt that Transformational leadership by Mentoring and empowering of employees by leader to achieve their full potential had a very high effect on the performance of their MFI accounted for 22.7% while 4.5% of respondents felt it had a very low effect (M= 3.79, SD= 1.045).

4.6.2 Correlation between leadership style and the Performance of MFIs

Pearson Correlation test was used to test the relationship between leadership style and the performance of MFIs. The results in Table 20 indicates that there was a statistically moderate positive correlation between leadership style and the performance of MFIs, $r(66) = .458, p < .05$. There is evidence that the correlation exist between firm's leadership style and performance of microfinance because the level of significant is 0.000 indicating that the correlation is statistically significant since it is below 0.05.

		leadership style	performance of micro finance
leadership style	Pearson Correlation	1	.458**
	Sig. (2-tailed)		.000
	N	66	66
performance of micro finance	Pearson Correlation	.458**	1
	Sig. (2-tailed)	.000	
	N	66	66

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

Table 20 Correlations for leadership style

4.6.3 Regression analysis between leadership style and the Performance of MFIs

A simple linear regression was conducted to establish the extent to which leadership style affected the performance of MFIs. The findings of the model summary presented in Table 21 indicates that leadership style explained about 21% of the variability in the performance of MFIs ($R^2 = .21$, $F(1, 64) = 16.98$, $p < .05$) and the strength of the relationship ($r = .458$).

Even if R^2 is small it can be significant (>0), indicating that the regression model has statistically significant explanatory power. Also here the R^2 value is low that doesn't mean there is no relationship between performance and leadership style. But this may be due to missing or a reduced explanatory variable caused by hardness of specifying the exact variable from a plenty independent variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.458 ^a	.210	.197	.23119

a. Predictors: (Constant), leadership style

Table 21 Model Summary for leadership style

The linear regression ANOVA results presented in Table 22 indicates that leadership style statistically significantly predicted the performance of MFIs $F(1, 64) = 16.98, p < .05$.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.908	1	.908	16.984	.000 ^b
	Residual	3.421	64	.053		
	Total	4.329	65			

a. Dependent Variable: performance of micro finance

b. Predictors: (Constant), leadership style

Table 22 ANOVA for leadership style

The regressions coefficient findings presented in Table 23 indicates that leadership style predicted the performance of MFIs ($B = .243, p < .05$). This means that one unit of increase in leadership style would lead to an increase in the performance of MFIs by a unit of 0.243. From the coefficients, the general form of the linear regression model equation that was established was as follows; Performance of MFIs = $2.973 + 0.243 \text{ leadership style}$.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.973	.234		12.697	.000
	leadership style	.243	.059	.458	4.121	.000

a. Dependent Variable: performance of micro finance

Table 23 Coefficients for leadership style

4.7 Effect of employees related issues on the Financial Performance of MFI

This section sought to establish the relationship between employee's related issues and the financial performance of MFIs from the respondents. Firms characteristics was expressed by two items namely; motivation & inspiring and performance appraisal. These items measured how employees related issues had affected performance in terms of profit margin, turnover, market share, and asset value in the respondents MFIs.

4.7.1 Descriptive Statistics for the Effect of employees related issues on the Performance of MFIs

Table 24 presents the frequency distribution of the respondents' level of agreement or disagreement for the effect of employees' related issues on the financial performance of their MFIs. The respondents were asked to answer the questions by indicating their opinion on given statements using a 5-point Likert scale of 1-5, where 1 = strongly disagree, 2 = disagree, 3 = Moderate, 4 = agree and 5 = strongly agree. The frequencies and percentages were computed, and the mean scores ranked. Effectiveness was denoted by mean scores of 3.5 and above ($M > 3.5$).

Effect of employees related issues on performance of MFI.		Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree	Total	M	SD
		1	2	3	4	5			
28. Motivating and inspiring the employees with the shape of rewards, bonus has an effect on the performance of MFI.	%	1.5	3	3	36.4	56.1	100	4.4	0.8
	F	1	2	2	24	37	66	2	24
31. Performance appraisal based on development to identify training deficit affect the performance of MFI.	%	3	3	25.8	51.5	16.7	100	3.7	0.8
	F	2	2	17	34	11	66	6	78

Table 24: Descriptive Statistics for the Effect of ERI on the Financial Performance of MFIs

The respondents who felt that Motivating and inspiring the employees with the shape of rewards, bonus had a high effect on the performance of profit margin in their MFI accounted for 56.1% while 1.5% of respondents felt it had a low effect (M= 4.42, SD= 0.824). The respondents who felt that Performance appraisal based on development to identify training deficit had affected the performance of number of employees in their

MFI moderately accounted for 25.8% while 16.7% of respondents agreed highly with the statement (M= 3.76, SD= 0.878).

4.7.2 Correlation between employees related issues and the Performance of MFIs

Pearson Correlation test was used to test the relationship between employees' related issues and the performance of MFIs. The results in Table 25 indicates that there was a statistically significant strong positive correlation between employees related issues and the performance of MFIs, $r(66) = .66, p < .05$.

		performance of micro finance	employees related issues
performance of micro finance	Pearson Correlation	1	.666**
	Sig. (2-tailed)		.000
	N	66	66
employees related issues	Pearson Correlation	.666**	1
	Sig. (2-tailed)	.000	
	N	66	66

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

Table 25 Correlations of employees related issues

4.7.3 Regression analysis between employees related issues and the Performance of MFIs

Simple linear regression was conducted to establish the extent to which employees related issues had an effect on the performance of MFIs. The findings of the model summary presented in Table 26 indicates that employees related issues explained about

44.4% of the variability in the performance of MFIs ($R^2 = .444$, $F(1, 64) = 51.034$, $p < .05$) and the strength of the relationship ($r = .666$).

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666 ^a	.444	.435	.19398

a. Predictors: (Constant), employees related issues

Table 26 Model Summary of employees related issues

The linear regression ANOVA results presented in Table 27 indicates that employees related issues statistically significantly predicted the performance of MFIs $F(1, 64) = 51.034$, $p < .05$.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.920	1	1.920	51.034	.000 ^b
	Residual	2.408	64	.038		
	Total	4.329	65			

a. Dependent Variable: performance of micro finance

b. Predictors: (Constant), employees related issues

Table 27 ANOVA employees related issues

The regressions coefficient findings presented in Table 28 indicates that employees related issues predicted the performance of MFIs ($B = .292$, $p < .05$). This means that one unit of increase in employees related issues would lead to an increase in the performance of MFIs by a unit of 0.292. From the coefficients, the general form of the linear regression model equation that was established was as follows; Performance of MFIs = $2.734 + 0.292 \times$ employees related issues.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.734	.169		16.163	.000
	employees related issues	.292	.041	.666	7.144	.000

a. Dependent Variable: performance of micro finance

Table 28 Coefficients employees related issues

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

The purpose of this study was to determine the factors affecting the financial performance of selected Microfinance Institutions in Addis Ababa, Ethiopia. Four research questions have served as a guide to the study which included:

- What is the relation between firms' characteristics and the financial performance of microfinance?
- What is the degree of impact of leadership style on the employee's turnover and productivity performance of microfinance?
- What is the relation between employees related issues of a firm and performance of microfinance?
- What is the degree of impact of internal control system of a firm on the financial performance of microfinance?

A descriptive correlational research design was adopted by this study. The population comprised four hundred thirty one 431 respondent of MFIs that had been operating at the time of the study. A random sampling technique was used to select a sample of seventy 70 managers of MFIs from the total population. The data collection instrument used in this study was a structured questionnaire.

The study used descriptive and inferential statistics to analyze the data. The descriptive statistical analysis included frequencies and percentage distributions, mean and standard deviation while the inferential statistical analysis included Pearson Correlation and Regression analysis. Statistical Package for Social Sciences (SPSS) was used as a tool for statistical analysis and the results, and they were presented in figures and tables.

5.1.1 Effect of internal control system on the Financial Performance of Microfinance Institutions

On the first research question regarding the effect of internal control system on the financial performance of MFIs, Findings from Pearson Correlation test indicated that there was small (moderate) positive correlation between internal control system and the performance of MFI , $r(66) = .28$, $p < .05$ Linear regression analysis indicated that internal control system explained 7.8% of the variability in the performance of MFIs, $R^2 = .078$ and statistically significantly predicted the performance of MFIs, $F(1, 64) = 5.437$, $p = 0.023$

The results revealed that 16.7% and 53% of the respondents moderately and very highly, felt that internal control system based on segregation of duty affected the performance of microfinance in their institution respectively. This finding agree with a study by G.Mwaniki(2017), who acknowledged that segregation of duties influence financial performance of MFI and this could be through setting up appropriate stages in accounting process considering number of accounting staffers in the institution. This ensures negligible chances of collusion and at the same time staffs are not overwhelmed by the workload.

Pearson Correlation test showed that there was a statistically small (moderate) positive correlation between internal control system and the performance of MFIs at $r(66) = .28$, $p < .05$. Internal control system in the microfinance business is expected to be beneficial because it improve financial performance by improving segregation of duties, authorization and approval of accounting transactions and internal audit functions. The result confirmed the finding by Procasur Africa report (2012), stated that poor control systems has led to huge investment loss through fraud and misuse of assets that are used to generate revenue while members and institutions have suffered big losses.

Linear regression analysis showed that internal control system explained 7.8% of the variability in the performance of MFIs ($R^2 = 0.078$) and statistically significantly predicted the performance of MFIs ($B = .148$, $p < .05$).

The study further revealed that appropriate internal controls facilitate growth and allows expansion in to new areas. Effective internal controls should enable MFI to tap new businesses whilst safeguarding the already existing portfolio. Therefore MFI should strike a balance between internal controls and efficiency in operations.

5.1.2 Effect of firms characteristics on the Financial Performance of Microfinance Institutions

On the second research question concerning the effect of firms characteristics on the financial performance of MFIs, Pearson Correlation test results indicated that firms characteristics was positively and strongly correlated to the performance of MFIs; $r(66) = .679$, $p < .05$. The linear regression analysis revealed that firms characteristics explained 46.1% of the variability in the performance of MFIs, $R^2 = 0.461$ and statistically significantly predicted the performance of MFIs, $F(1, 64) = 54.742$

51.5% of the respondent highly felt that age of MFI strongly affect the performance of the institution, whereas only 3% of the respondent argue that market orientation has a strong effect on the performance of microfinance institution. This finding agree with a study by Usman and Zahid (2011), who acknowledged that structure-related firm characteristics have a statistically significant and moderate positive effect on performance.

Pearson Correlation test showed that there is statistically significant strong positive correlation between firms characteristics and the performance of MFIs, $r(66) = .679$, $p < .05$. Means change in firm's characteristics of size, experience on the industry, market orientation, ownership, diversification and capital structure is directly related with the change of performance of micro finance institution.

Linear regression analysis showed that firms characteristics explained 46.1% of the variability in the performance of MFIs ($R^2 = 0.461$) and statistically significantly predicted the performance of MFIs ($B = .423$, $p < .05$), for each increase in 1 unit of firms characteristics the performance of micro finance increase by 0.423. The finding is

agreed with the results of Zachary (2014) that concluded firm characteristics account for 29.3% variation in organizational performance of firms in the microfinance sector.

5.1.3 Effect of leadership style on the Financial Performance of Microfinance Institutions

On the third research question concerning the effect of leadership style on the financial performance of MFIs, Pearson Correlation test results indicated that leadership style was moderately correlated to the performance of MFIs; $r(66) = .458, p < .05$. The linear regression analysis revealed that leadership style explained 21% of the variability in the performance of MFIs, ($R^2 = .21$) and statistically significantly predicted the performance of MFIs, $F(1, 64) = 16.98, p < .05$

Majority of the respondent that constituent 51.5% answer that laissez fair leadership style has a very high effect on the performance, while only 19.7% of the respondent strongly agreed that a democratic leadership style has effect on the performance of micro finance because they thought that a democratic leadership doesn't fit with condition the psych-social condition of the country so they doesn't apply it. This result confirms the result by Bhatti, et al. (2012), that state democratic leaders often play a huge role in building team work and motivation amongst employees, the style is not often applied by many managers in financial institutions as they require fast decision making which would not be the case if a democratic form of leadership was used.

Pearson Correlation test showed that there was a statistically moderate positive correlation between leadership style and the performance of MFIs, $r(66) = .458, p < .05$. Means change in the leadership style of microfinance institution is directly related with the change of performance of micro finance institution. The result is related with from the finding by Singh (2011) that leadership styles can either motivate or discourage employees, which in return can either increase or decrease an employee's level of performance.

The linear regression analysis showed that leadership style explained 21% of the variability in the performance of MFIs ($R^2 = .21$) and statistically significantly predicted the performance of MFIs ($B = .243, p < .05$).

5.1.4 Effect of employees related issues on the Financial Performance of Microfinance Institutions

On the fourth research question concerning the effect of employees related issues on the financial performance of MFIs, Pearson Correlation test results indicated that there was statically significant strongly positive correlation between employees related issues and the performance of MFIs; $r(66) = .666, p < .05$. The linear regression analysis revealed that employees related issues explained 44.4% of the variability in the performance of MFIs, ($R^2 = .444$), and statistically significantly predicted the performance of MFIs, $F(1, 64) = 51.034, p < .05$.

The results revealed that 36.4% and 56.1% of the respondents moderately and very highly, felt that motivating and inspiring of employees affected the performance of their institution respectively. And also 51.5% and 16.7% of the respondent moderately and strongly agreed respectively that performance appraisal affect the performance of microfinance. This finding agree with a study by Said Abdi at. el (2017), that monetary rewards, job enrichment have significant and positive effects on employee performance.

Pearson Correlation test showed that there was a statistically significant strong positive correlation between employees related issues and the performance of MFIs at $r(66) = .66, p < .05$. Means change in employee's related issues of microfinance institution is directly related with the change of performance. This relation is also guaranteed by Agyare (2016)) that states, employees' organizational commitment has a positive relationship with the factors: rewards in terms of salary, identification of training needs, clarity of performance appraisal purpose, and the involvement of employees in the formulation of appraisal tools

Linear regression analysis showed that employees related issues explained 44.4% of the variability in the performance of MFIs ($R^2 = 0.444$) and statistically significantly predicted the performance of MFIs ($B = .292, p < .05$).

5.2 Conclusions

The objective of this study was known about key factors that are affecting the performance of selected microfinance institutions in Addis Ababa. Multiple regression analysis is used in study to find out potential factors that lead performance of MFIs. Based on prior literature, four prominent factors were identified i.e. internal control system, firm's characteristics, leadership style and employees related issues. And conclusion are made as follow:

5.2.1 Effect of internal control system on the Performance of Microfinance Institutions

Correlation and regression analysis showed that there was a statistically moderate significant positive relationship between internal control system and the performance of MFIs. And based on this finding the study concludes that internal control system through segregation of duty, adequate documentation, authorizer's independent, independent check on performance and safeguard of asset affect the performance of micro finance.

5.2.2 Effect of firms characteristics on the Performance of Microfinance Institutions

Both correlation and regression analysis showed that there was a statistically significant positive relationship between firms characteristics and the performance of MFIs. The firm's characteristics items that were investigated are size, length of time that a firm existed, state of ownership, market orientation, diversification and firm's capital structure. Based on these findings, the study results firms characteristics enables MFIs to perform at good condition.

5.2.3 Effect of leadership style on the Performance of Microfinance Institutions

Both correlation and regression analysis showed that there was a statistically moderate significant positive relationship between leadership style and the performance of MFIs. And based on this finding the study concludes that different leadership style including democratic, autocracy, transactional, laissez fair and transformational leadership affect the performance of micro finance.

5.2.4 Effect of employees related issues on the Performance of Microfinance Institutions

The result from correlation and regression showed that there is a statistically strong significant positive relationship between employee's related issues and the performance of MFIs. The employee's related issues items that were investigated were motivation & inspiring and performance appraisal. Based on these findings, the study results to that motivation and performance appraisal enables MFIs to perform dismally or exceptionally.

5.3 Recommendations

The following are recommendations for the factors affecting the performance of MFIs in

- From the findings, it is recommended that in order to have a return from their investment stakeholders should focus on establishing strong background on those factors.
- The findings suggest that organizational performance of MFIs is explained at 7.8%, 46.1%, 21% and 44.4% by ICS, firm's characteristics, leadership style and employees related factors respectively. This research paves a way for further studies to establish other cause and effect relationship between and other factors affecting performance.
- Since this research is done only on those microfinance operated in Addis Ababa it is better if future research can be done by making the research area wide and throughout the country. By making this the next researcher can make a better representative research on factors affecting factors of microfinance. Therefore

research could be done on MFIs in other regions or a similar study in other sectors.

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APPENDICES

ADDIS ABABA UNIVERSITY
School of Business and Economics
Graduate program

**Questionnaire on the factors affecting the performance of microfinance
institution**

Questionnaire

Dear Respondent

My Name is Amanuel Alemu currently, I study my second degree at Addis Ababa University This survey is meant to collect relevant information from selected staff to aid in the assessment of the factors affecting the performance of microfinance institution. The information required is strictly for academic purposes and any information provided would be treated with the utmost confidentiality and shall be used only for the intended purpose. Your candid opinion is highly solicited. It will be much appreciated if you could spare some minutes to complete this questionnaire.

Thank you for your attention.

Prepared by Amanuel Alemu

Section 1 Demographic information

1. Name

2. Job position

3. What is your gender? Male () Female ()

4. What is your age? Below 25 () 25-29 () 30-34 () 35-39 ()
) above 40 ()

5. What is your highest level of educational qualification?

 Certificate () Diploma () Degree ()
Post graduate ()

6. For how long have you been operating (working experience?)

Kindly indicate by ticking () the extent to which firms characteristics has affected the performance of your MFI in the last years. Use scale of 1-5 where: 1= strongly disagree, 2= disagree, 3= moderate, 4= agree, 5=- strongly agree.

Effect of firms characteristics on performance of MFI.	Strongly Disagree	Disagree	Moderate	Agree	Strongly Agree
	1	2	3	4	5
13. Firms characteristics of size of the MFI affect the performance of MFI.					
14. The length of time that a firm has existed, expressed in years affect the performance of MFI.					
15. The state of ownership (state-owned or private) have an effect on the performance of MFI.					
16. Market orientation (Identifying current and future needs, knowing the strengths and plans of competitors and responding to them) affect the performance of MFI.					
17. Firm characters of diversification (expansion of a commercial organization into new areas) affect the performance financial self sufficiency of MFI.					
18. Firms capital structure (mix of debt and equity) that a firm uses to finance its operations affect the performance of MFI.					

Section 4 Effect of leadership style on performance of MFI

Kindly indicate by ticking () the extent to which leadership style has affected the performance of your MFI in the last years. Use scale of 1-5 where: 1= strongly disagree, 2= disagree, 3= moderate, 4= agree, 5=- strongly agree.

Effect of leadership style on performance of MFI.	Strongly Dis agree	Disagree	Moderate	Agree	Strongly Agree
	1	2	3	4	5
19. A democratic leadership style working with the member and the personnel in the sprite of one team affect the performance of MFI.					
20. Autocracy Leadership without consulting anyone affect the performance of MFI.					
21. A Transactional Leadership by providing consistent coaching support affect the performance of MFI					
22. Laissez fair leaders providing employees with complete freedom to make decision has effect on performance of MFI.					
23. Transformational leadership by Mentoring and empowering of employees by leader to achieve their full potential affect performance of MFI					

Section 5 Effect of employees related issue on performance of MFI

Kindly indicate by ticking () the extent to which employees related issues has affected the performance of your MFI in the last years. Use scale of 1-5 where: 1= strongly

Effect of employees related issue on performance of MFI.	Strongly Dis agree	Disagree	Moderate	Agree	Strongly Agree
	1	2	3	4	5
24. Motivating and inspiring the employees with the shape of rewards, bonus has an effect on the performance of MFI.					
25. Performance appraisal based on development to identify training deficit affect the performance of MFI.					

disagree, 2= disagree, 3= moderate, 4= agree, 5=- strongly agree.

DECLARATION

I undersigned, declared that this research paper is my original work, prepared under the guidance of advisor Dr. Gemechu Waktola. All source of materials used for this manuscript have been duly acknowledged.

Name

Signature

Amanuel Alemu

Place of submission: _____

Date of submission: _____

Submission Approval Sheet

The paper has been submitted for examination with approval of my advisor.

Name: Dr. Gemechu Waktola

Signature: _____

Date: _____