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Organizational Culture and Performance of Microfinance Institutions in Machakos County, Kenya

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ABSTRACT

This study sought to determine the influence of organizational culture on performance of MFIs in Machakos County. The study focused on the influence of values, responsive customer service, innovativeness, stakeholder engagement and collaboration on performance of MFIs in Machakos County. The study adopted a descriptive research design. The study was anchored on the theory of organizational excellence. The target population for the study included 63 staff members from the 21-registered MFIs in the county. The study utilized purposive sampling technique in an effort to identify the most suited respondents for the study. A structured questionnaire was utilized as the data collection tool. The questionnaire was divided into two parts containing the demographic data relating to the respondent's background as part one and the second part covering organizational culture factors. Descriptive and Inferential statistics were used in the analysis of the data. The linear regression analysis method was used to assess the associations between organizational culture and performance. The study findings revealed that while having clear organizational values is essential, their integration into strategy may not always be beneficial. Secondly, Innovation and stakeholder engagement are identified as crucial drivers of performance, with strong positive and statistically impacts. However, an overemphasis on values and work ethics has a negative significant influence on performance. Lastly, collaboration is important but has a minimal positive and significant statistical effect. The study recommended that MFIs should prioritize fostering innovation and engaging stakeholders effectively to enhance performance. Also, organizational values should be integrated into strategy thoughtfully to avoid negative effects, and ethical practices should be aligned with performance goals to balance organizational culture with strategic objectives.

Keywords: Organizational culture, performance, microfinance institutions, strategy implementation

INTRODUCTION

Microfinance institutions (MFIs) play a critical role in providing financial services to low-income individuals and small enterprises that are often excluded from traditional banking systems. Organizational culture plays a pivotal role in shaping the performance of institutions across various sectors, including microfinance. In the context of Microfinance Institutions (MFIs), a strong and adaptive organizational culture can significantly influence their ability to achieve sustainability, financial performance, and social impact. According to Schein (2017), organizational culture encompasses the shared values, beliefs, and practices that guide the behavior of individuals within an organization. In microfinance, these cultural elements can either drive innovation and client-centric services or create barriers to growth and outreach. Research by Jones et al. (2020) highlights that MFIs with a culture that emphasizes transparency, accountability, and client trust tend to perform better in terms of financial inclusion and poverty alleviation outcomes.

Background of the Study

Globally, MFIs have experienced significant growth, with the sector serving over 140 million clients and holding an estimated $124 billion in outstanding loans by 2021 (Microfinance Barometer, 2021). The success of these institutions is often attributed to their ability to foster a strong organizational culture that aligns with their social and financial objectives. A positive organizational culture within MFIs is believed to enhance employee motivation, customer satisfaction, and ultimately, the institution's performance.

In Kenya, the microfinance sector has been a vital component of the country's financial system. The Central Bank of Kenya (CBK) reports that as of 2023, there are 13 licensed deposit-taking microfinance institutions (DTMs) with a combined asset base of over KSh 80 billion. These institutions have played a crucial role in promoting entrepreneurship and improving livelihoods among low-income populations (CBK, 2023). However, the performance of these institutions has been uneven, with some experiencing financial distress, leading to closures or mergers. Factors such as organizational culture have been increasingly recognized as key determinants of the success and sustainability of MFIs in Kenya.

Machakos County, one of Kenya's rapidly developing regions, has witnessed the proliferation of MFIs, particularly due to the county's growing population and increasing entrepreneurial activities. As of 2023, there were approximately 15 registered MFIs in Machakos County, collectively serving over 150,000 clients (Machakos County Government, 2023). These institutions have contributed significantly to the county's economic development by offering financial services to individuals and small businesses that would otherwise lack access to credit. However, the performance of these MFIs varies, with some institutions struggling to maintain financial sustainability and impact.

Organizational culture, defined as the shared values, beliefs, and practices that shape the behavior of individuals within an organization, has been widely studied in relation to business performance. In the context of MFIs, a positive organizational culture can lead to improved employee motivation, customer satisfaction, and overall institutional performance. Conversely, a negative or misaligned culture can result in high staff turnover, poor customer relations, and financial instability. Studies have shown that MFIs with a strong culture of accountability, innovation, and customer focus tend to outperform their peers (Mwangi & Wanjiku, 2021).

Statement of the Problem

Microfinance institutions (MFIs) in Machakos County, Kenya, play a crucial role in providing financial services to the underserved populations, particularly in rural and semi-urban areas. However, these institutions face challenges related to sustainability and performance. A significant factor contributing to these challenges is organizational culture, which encompasses the values, beliefs, and behaviors that shape how employees interact and perform within an organization. Research has shown that a strong and adaptive organizational culture can lead to improved performance, while a weak culture can result in inefficiencies and poor service delivery (Ojo, 2019). This study seeks to explore the relationship between organizational culture and the performance of MFIs in Machakos County to understand how cultural factors may be influencing their operational outcomes.

Recent statistics indicate that the performance of MFIs in Machakos County has been inconsistent, with majority institutions reporting declining profitability and client outreach. A recent report by the Association of Microfinance Institutions in Kenya (AMFI-K) highlighted that only 55% of MFIs in the county met their financial targets in 2022, a decline from 68% in 2020 (AMFI-K, 2022). Additionally, client retention rates have dropped by 10% over the past three years, pointing to potential issues in service delivery and customer satisfaction (Ndung'u & Wambua, 2021). These trends suggest that underlying organizational issues, including culture, may be impacting the performance of these institutions, necessitating a thorough investigation.

Understanding the role of organizational culture in the performance of MFIs is critical, especially as these institutions strive to expand their reach and impact. Previous studies have shown that elements such as leadership style, employee engagement, and communication patterns, all of which are influenced by organizational culture, are key determinants of institutional success (Mwangi & Muturi, 2020). Therefore, by examining the specific cultural factors at play within MFIs in Machakos County, this study aims to provide insights that can inform strategies for improving their performance and sustainability in the long term.

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LITERATURE REVIEW

Theoretical Review

The theory of organizational excellence emerged in the early 1980s, primarily influenced by the seminal work in Search of Excellence by Peters and Waterman (1982). Their study identified eight characteristics shared by highly successful companies, emphasizing customer focus, productivity through people, and a bias for action. The theory has since evolved into a multidisciplinary framework incorporating insights from strategic management, organizational behavior, and leadership studies. It seeks to explain the principles underlying sustained organizational success and provides a structured approach to improving business performance (Peters & Waterman, 1982).

One of the key contributions to this theoretical framework is Collins and Porras' (1994) Built to Last, which highlights how visionary companies sustain their excellence over long periods. They argue that organizations achieving long-term success have strong core ideologies and adaptive mechanisms that enable them to respond to environmental changes. This aligns with the notion that organizational excellence is not just about financial performance but also about maintaining a dynamic and resilient corporate culture (Collins & Porras, 1994).

A significant aspect of organizational excellence is the role of organizational culture. Denison's model (1990) identifies four key cultural traits essential for sustaining high performance: involvement, consistency, adaptability, and mission. Organizations that embody these traits foster employee engagement and alignment with corporate goals, leading to enhanced business performance. Empirical research supports this notion, with Denison and Mishra (1995) demonstrating a positive correlation between a strong organizational culture and financial performance. Their study underscores that organizations with deeply embedded cultural values are more likely to achieve sustained excellence (Denison & Mishra, 1995).

Further supporting this perspective, O'Reilly, Chatman, and Caldwell (1991) investigated the impact of corporate culture on financial success and organizational growth. Their findings revealed that organizations with well-defined cultural values tend to outperform those lacking cultural coherence. A strong organizational culture fosters employee motivation, strategic alignment, and effective decision-making, all of which contribute to long-term excellence (O'Reilly et al., 1991).

Therefore, the theory of organizational excellence highlights the critical role of culture, leadership, and strategic vision in shaping long-term success. Organizations that cultivate a culture of excellence, align their values with strategic objectives, and adapt to changing environments are more likely to sustain superior performance over time. This theoretical perspective remains highly relevant in contemporary research, offering valuable insights into enhancing organizational effectiveness through cultural and strategic initiatives (Denison, 1990; Collins & Porras, 1994).

Empirical Review

Armendariz and Szafarz (2019) explored the relationship between organizational culture and financial performance of microfinance institutions. The researchers employed a mixed-methods approach, combining quantitative data analysis with qualitative assessments of organizational culture. The findings revealed that MFIs with a strong emphasis on social mission and client-centeredness, as opposed to profit-maximization, tend to perform better in terms of outreach, repayment rates, and sustainability. These institutions demonstrated a strong commitment to their social objectives, which, in turn, garnered greater trust and loyalty from their clients and stakeholders. This study emphasizes the importance of aligning organizational culture with social mission in microfinance institutions for achieving sustainable and impactful financial performance.

Kaba and Gueyié (2020) in their study specifically focused on the effect of organizational culture on the performance of MFIs in African. The researchers collected data from a diverse sample of MFIs across the continent and analyzed it using regression analysis. The study revealed that MFIs with a culture that prioritizes client-centric services and emphasizes social responsibility tend to achieve better financial performance. This is attributed to the increased client satisfaction and trust, leading to higher loan repayment rates and a positive

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impact on the institutions' sustainability. The findings underscore the importance of cultivating a strong client-oriented organizational culture to enhance the performance and social impact of microfinance institutions in the African context.

Chijoriga and Foya (2019) explored the effect of organizational culture on the financial sustainability of microfinance institutions in Tanzania. Using a mixed-methods research design, the authors conducted surveys and interviews with various stakeholders from multiple MFIs. The results indicated that MFIs with a strong culture of financial discipline, transparent governance, and a focus on long-term sustainability tend to outperform their peers. These institutions were more resilient during economic downturns and better equipped to handle financial challenges. The study underscores the importance of establishing a strong and sustainable organizational culture within MFIs operating in Africa to ensure their long-term success and impact on poverty alleviation.

Shiundu and Munyoki (2020) conducted a study to investigate the relationship between organizational culture and financial performance in Kenyan microfinance institutions. The researchers used a quantitative research approach, analyzing financial data and conducting structured surveys with MFI staff. The study found that MFIs with a culture that fosters innovation, client responsiveness, and efficient customer service tend to have higher financial performance indicators, such as higher loan repayment rates and increased outreach. Conversely, MFIs with a rigid and bureaucratic organizational culture showed limited adaptability to changing market demands, leading to relatively lower financial performance. The study highlights the significance of promoting a dynamic and customer-centric organizational culture in Kenyan MFIs to enhance their financial performance and overall effectiveness.

Ouma and Kamau (2020) studied the impact of organizational culture on the outreach and sustainability of Kenyan microfinance institutions. Through a mixed-methods approach, the researchers assessed the influence of culture on the institutions' ability to reach underserved populations and maintain long-term operations. The findings indicated that MFIs with a culture that emphasizes social responsibility, community engagement, and risk management demonstrated better outreach to marginalize communities and enhanced sustainability. Such institutions were more successful in gaining the trust of clients, attracting social investors, and securing financial support. The study provides valuable insights into the importance of nurturing a socially responsible and community-oriented organizational culture in Kenyan microfinance institutions to expand their reach and achieve sustainable operations.

Conceptual Framwork

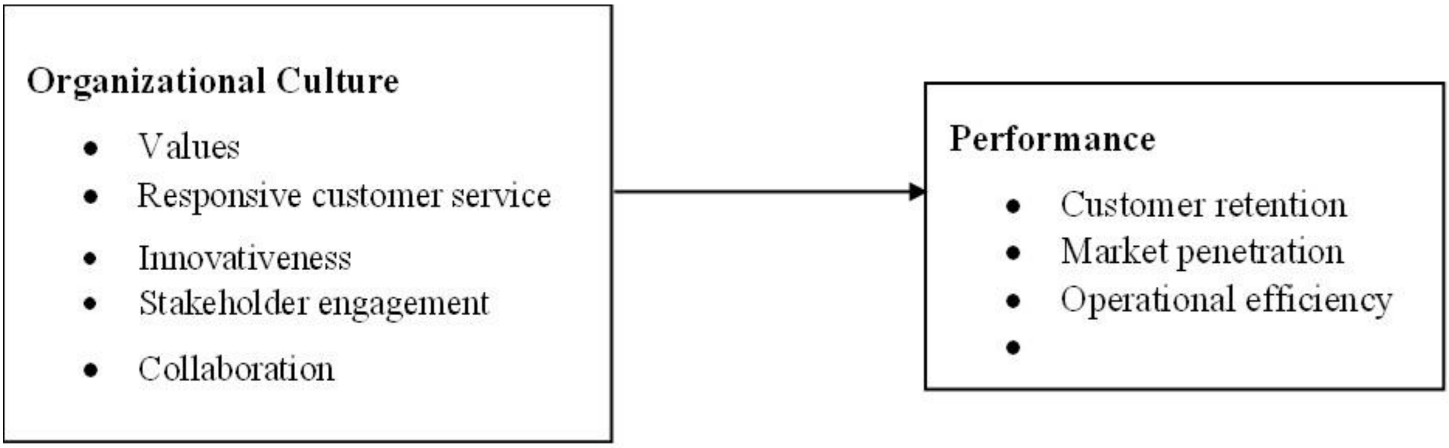

Figure 1 Conceptual Framework

RESEARCH METHODOLOGY

Research Design

This study utilized a descriptive research design, which is an effective approach for systematically gathering information to understand the current status of a subject. As described by Cooper and Schindler (2015), descriptive research involves the collection of data through methods such as individual and group interviews, record analysis, and observation. This design was chosen to gather detailed insights into the organizational culture practices of microfinance institutions in Machakos County and their impact on performance.

Population and Sampling

The target population in this study was the 21 MFIs operating in Machakos County. 63 staff purposively sampled from the 21 MFIs including branch managers, and two other strategic employees among finance officers, marketing and sales staff from the 21 licensed MFIs operating in Machakos County were selected to form the sample.

Table 1 Target Respondents

Category	Frequency	Percentage (%)
Branch Managers	21	33.3
Strategic Team Staff	42	66.7
Total	63	100

Data Collection

Primary quantitative data was gathered through the use of questionnaires. The data collection focused on quantitative information and utilized structured questionnaires featuring closed-ended questions. The first section collected respondents' demographic data, the subsequent sections collected opinions and perceptions of the respondents' about organizational culture and performance.

Data Processing and Analysis

Descriptive and inferential statistical analysis techniques were employed. The findings were presented in various formats, including tables, graphs, and pie charts, as well as in written prose. This multifaceted presentation approach aimed facilitating data comparison, the identification of relationships, key patterns, and trends within the dataset. The regression model used to shed light on the relationship between organizational culture and performance of MFIs in Machakos County was as follows;

$Y = \alpha + \beta 1X1 + \varepsilon$

Where;

$\beta 1$ – Regression coefficient

X1 – Organizational culture

ε – Error term

RESULTS AND DISCUSSION

Introduction

A total of 63 questionnaires were distributed to the study participants. Among these, 92.0% were filled and returned while 8.0% were not returned. Also, the test for reliability showed that Cronbach's Alpha value for organizational culture was 0.897, which was acceptable.

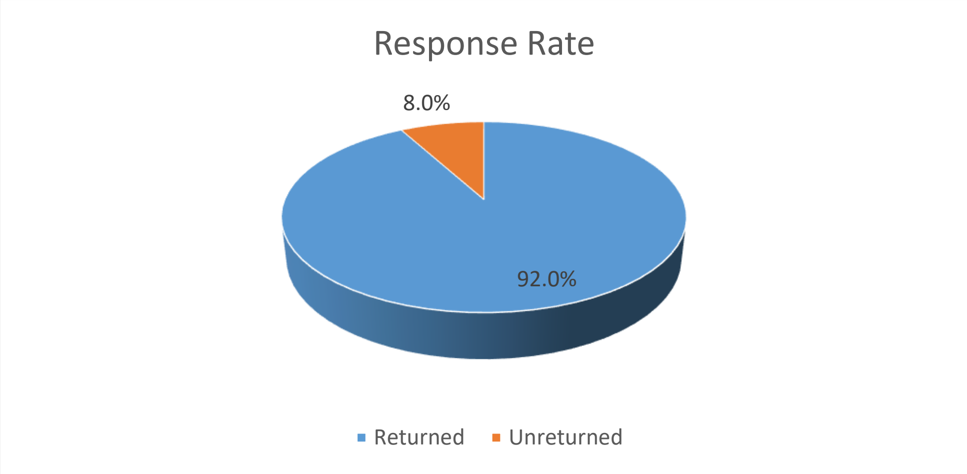

Figure 2 Response Rate

Demographic Analysis

The male respondents accounted for 55.2% while female respondents accounted for 44.8%. This finding implies that MFIs have high commitment to gender diversity and equality in employment practices. On work duration, 24.1% had worked in their organizations for 1-2 years, 29.3% for 3-4 years, 25.9% for 4-5 years while the remaining 20.7% had worked for 6 year and above as shown in figure 4.3 below. This finding showed that the respondents had enough experience which could help in the study. Lastly, on position held by the participants, 43.1% of them were operating in the middle level management, 25.9% in the supervisory level while 31.0% were from the top management. This finding indicate the respondents were spread across the strategic units of MFIs thus capable of providing reliable information.

Organizational Culture and Performance of MFIs

The results reveal various levels of agreement among respondents from microfinance institutions in Machakos on aspects of organizational values and strategy implementation. A mean score of 2.88 with a low standard deviation indicates a consensus on the presence of defined values within organizations. There is moderate agreement (mean = 2.81, SD = 0.687) on the integration of values into strategy, though with some variability. Respondents generally agree (mean = 3.03, SD = 0.700) on the responsiveness of customer service related to strategy, while innovation in strategy implementation shows higher agreement (mean = 3.29, SD = 0.918) but with diverse opinions. Stakeholder engagement is moderately agreed upon (mean = 2.74, SD = 0.715), suggesting that microfinance institutions must enhance their stakeholder engagement activities for better strategy implementation. Strong agreement (mean = 4.17, SD = 0.752) exists on the importance of collaboration for effective strategy implementation, despite some variation in its practice.

Statement	**Mean**	**STD e. DEV**
There are defined values in your organization	2.88	0.651
The values in the organization are part of strategy implementation	2.81	0.687
There is responsive customer service that relates to strategy implementation	3.03	0.700
There are innovative ways for strategy implementation	3.29	0.918
There is stakeholder engagement in strategy implementation	2.74	0.715
There is collaboration across the firm to ensure strategy implementation	4.17	0.752
Average	3.15	0.737

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Performance of MFIs

The findings in table above show that the performance indicator for customer retention has a mean of 4.00 with a standard deviation of 0.816. This suggests that the strategy implementation has led to a high level of customer retention, as reflected by the strong average rating. However, the standard deviation indicates a moderate level of variation among responses, implying that while many have seen significant improvement, there may be some variability in the extent of this improvement across the organization. Market penetration has a mean score of 3.6 and a standard deviation of 0.674. The mean indicates that there has been a good level of improvement in market penetration following the strategy implementation, but not as strong as some other factors. The relatively lower standard deviation suggests that there is somewhat consistent agreement among respondents about the improvement, indicating a moderately positive impact of the strategy on expanding market reach.

The mean score for the operational efficiency is 3.24 with a standard deviation of 0.733. This mean value shows a moderate level of improvement in this area, which is somewhat lower compared to other indicators. The standard deviation suggests a moderate amount of variability in responses, indicating that the effect of the strategy on operational efficiency has been varied, with some areas possibly experiencing greater changes than others.

Indicator	**Mean**	**STD e. DEV**
Customer retention	4.00	0.816
Market penetration	3.6	0.674
Average Outstanding Loan Size	3.24	0.733
Average	3.79	0.703

Regression Analysis

The regression analysis reveals the impact of various factors on performance. The constant value (B = 3.320, $p < .001$) indicates the baseline performance when all other variables are held constant. The existence of innovative ways has the strongest positive influence on performance, with a significant coefficient of 0.511 ($p = 0.001$), indicating that fostering innovation can substantially enhance performance. Stakeholder engagement also positively affects performance with a coefficient of 0.252 ($p = 0.040$), showing that involving stakeholders contributes to improved outcomes. However, values being part of strategy implementation and work ethics both negatively influence performance, with coefficients of (B= -0.184, $p = 0.010$) and (B = -0.080, $p = .010$), respectively. Defined values has a weaker positive effect (B = 0.114, $p = 0.001$), while Collaboration shows a minimal positive influence (B = 0.049, $p = .075$). The findings suggest that innovation and stakeholder engagement are key drivers of performance, while overemphasizing values in strategy and certain ethical practices might hinder it. Therefore, organizations should prioritize innovative practices and effective stakeholder engagement to enhance performance.

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	3.320	.138		24.017	.000
	Defined Values	.033	.043	.114	.778	.001
	Values are part of strategy implementation	-.051	.046	-.184	-1.112	.010

	Work Ethics	-.022	.043	-.080	-.504	.010
	Innovative ways	.106	.030	.511	3.570	.001
	Stakeholder Engagement	.067	.032	.252	2.113	.040
	Collaboration	.013	.039	.049	.321	.075
a. Dependent Variable: Performance						

CONCLUSION AND RECOMMENDATIONS

The results indicate a general consensus on the presence of defined organizational values and some agreement on their integration into strategy. The study on the organizational culture and performance of microfinance institutions (MFIs) in Machakos highlights the critical role of innovation and stakeholder engagement in driving performance. However, the higher agreement on innovation and stakeholder engagement underscores their significant positive impact on performance. Conversely, the negative influence of integrating values into strategy and work ethics suggests that an excessive focus on these aspects might be detrimental. Collaboration is acknowledged as important, yet its minimal impact highlights the need for a balanced approach. Therefore, MFIs should focus on fostering innovation and enhancing stakeholder engagement to improve performance while carefully managing the role of values and ethics in strategy implementation.

Based on the study’s findings and conclusions, it is recommended that microfinance institutions (MFIs) in Machakos prioritize fostering innovation and strengthening stakeholder engagement to boost performance. Institutions should focus on developing and implementing innovative practices and strategies that can significantly enhance performance. Simultaneously, effective stakeholder engagement should be cultivated to ensure better outcomes and support. While organizational values are important, they should be integrated thoughtfully into strategy to avoid potential negative impacts. Additionally, organizations should reassess their ethical practices to ensure they align with performance goals. Emphasizing these areas can help balance the organizational culture with strategic objectives, ultimately improving overall performance.

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