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EMPIRICAL INVESTIGATION OF EFFECT OF HUMAN RESOURCES ON PERFORMANCE OF CREDIT ONLY MICROFINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

The purpose of this study was to determine the effect of human resources on performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya. Both descriptive and explanatory research design were adopted in this study. The target population of 309 respondents was drawn from the 30 Credit Only Microfinance Institutions headquartered in Nairobi City County, Kenya. A sample of 171 respondents was selected using stratified and simple random sampling techniques. The study utilised primary data which was collected using semi structured, self-administered questionnaire. Data was analysed using descriptive statistics and regression analysis presented in tables and graphs. The study found that human resources significantly affected performance of credit only microfinance institutions in Nairobi City County. The study therefore recommended that the management should carefully manage human resources to improve performance of microfinance institutions. The study suggested that other studies be conducted on other deposit taking microfinance institutions and other financial institutions such as commercial banks to establish if similar results would be obtained. The study also suggested that others studies should be conducted covering periods longer than five years to establish if similar results would be obtained.

Key words: *Human resources, Performance, Credit only Microfinance Institutions*

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INTRODUCTION

The development of resource-based approach to strategic management in the 1980s changed the focus of firm performance from industry factors to firm specific factors as sources of competitive advantage and more specifically firm resources (Ndofor, Sirmon & He, 2011). The source of the firm's competitive advantage has shifted from tangible resources and the capability to deploy them to intangibles such as the firm's knowledge base and the capabilities to manage utilise and develop it (Boon, Eckardt & Boselie, 2017). Barney (2014) eluded that most of the corporate value is now based on intellectual assets and that the majority of global wealth is intangible (Ferreira and Hamilton, 2010). As outlined by Wernerfelt (1984), Rumelt (1984) and Barney (1986), the resource-based view (RBV) posits that for a resource to provide a competitive advantage to its organisation it must be rare, valuable, non-substitutable and inimitable (VRIN). Barney (1991) had earlier argued that for resources to help a firm achieve a competitive advantage against its competitors it must be rare, valuable, non-substitutable and hard to imitate.

Barney (1986) noted that for firms to compete effectively they need resources that when properly combined that can allow them to have an advantage through the creation of value that competitors will find hard to have the same value. According to Barney there are resources including technology, natural resources and economies of scale that are key in developing competitive advantage (Sirmon, Hitt, Ireland & Gilbert, 2011). However, these resources which are majorly tangible are no longer tenable in creating competitive advantage since they have become increasingly available to all and easy to imitate (Porter, 2011) which calls for the management to identify intangible resources such as human resources which are difficult to imitate.

Belcourt and McBey (2016) viewed human resource as the resources that have to do with people's skills, knowledge and motivation. For this reason, human resources are not as mobile as the other resources mentioned above and human resources get better with experience and age. This is an attribute that is absent in the other resources. Thus, human resource is seen as the scarcest and rarest and which can lead to the best or the worst performance in the firm. Further, Sirmon, Hitt, Ireland and Gilbert (2011) in their study outlined the human resources to be made up of knowledge, experience, and wisdom of employees, risk taking and judgement of the staff at the firm. Wasike (2012) observed that human resources are a key source of a competitive advantage in an organization compared to technology or capital access. In this study human capital was measured using years of knowledge and skills, work experience, training and development and personal judgment.

In Kenya, the financial sector has an important role as it helps in the allocation of financial resources to the different economic sectors (Ongore, 2013). Particularly, MFIs have become the most affordable and accessible financial service providers in Kenya (Diar, Rotich & Ndambiri, 2017). Maina and Ishmail (2014) noted that the performance of Microfinance Institutions in Kenya is characterised by low levels of efficiency and high financial leverage level which negatively affect their return on shareholders' equity. Further, Mulunga (2010) noted that some Microfinance firms are not able to adequately manage their financial resources to meet their financial needs in the future this results to liquidity problems. Based on these observations, the study will seek to establish the effect of organisation resources on performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya.

THEORETICAL LITERATURE REVIEW

This study was based on the organisation learning theory developed by Argyris and Schon (1978). The theory posits that a person learning is regarded as the totality of the persons training and development. According to Siemens (2014), a person's learning affects the firm's concepts and practices used in its learning strategies. This is mainly because the process of learning starts from the person. Further, the theory states that a firm that seeks to enhance learning among its staff members should devote its resources to the individual learning so as to change the organisation as a whole (Clegg, Kornberger & Pitsis, 2015).

The knowledge connection spiral shows the existing connection between the person and the firms learning. According to Argote and Miron-Spektor (2011), the firms knowledge is changed from the individual knowledge by conversion of the individuals experience and knowledge into knowledge that is recorded with the groups and the firms processes refining, integrating, testing and institutionalizing this knowledge (Liao & Wu, 2010). The theory thus concludes that there is the need for the firm's management processes that seeks to improve the knowledge in the firm by ensuring that individuals in the firm are involved in the learning process.

Empirical Literature Review

In this section, relevant literature on the constructs of human resources and performance such as Kiai (2007) who sought to investigate how the Kenyan insurance companies have adopted the strategic human resource management practices using a descriptive survey design. Descriptive statistics were used in data analysis while the presentation of the findings was done in form of pie charts and tables. The study concluded that Kenyan insurance firms have not fully adopted the practices of Strategic Human Resource Management. This study only sought to determine if the insurance companies adopted SHRM practices but did not show the relationship between SHR and performance.

Bidmeshgipour (2012) studied the relationship between strategic human resource management practices and business performance considering the mediating role of resource-based view of the firm. The relationship between the SHRM practices and business performance was sought with the help of person correlation. The study found out that a strong relationship did exist between business performance and the SHRM practices. The focus of this study was on management of human resource strategies and not on the existing relationship between form performance and human resources.

Njau (2012) evaluated the challenges facing human resource management function at Kenyatta National Hospital. Using a case study and primary data collected using an interview guide; the study established that human resource managers at Kenyatta National Hospital (KNH) experience challenges of procedures and policies that curtail the hiring process including the delay of data from line managers that was needed for recruitment for departments. Influential people canvass for positions leading to a compromised selection process. This study established the challenges faced by human resource management function but did not show how the human resource management affect firm performance. Secondly, this research was done in the health sector while the current research was in the financial sector.

Ngui (2015) studied the effect of human resource management strategies on performance of Kenyan commercial banks. The research made use of the survey method to collect data. The research population was made up of 46 banks and 2,738 staff members. The researcher purposively sampled the head office of each bank that was located in Nairobi. A stratified random sampling method was used to get a sample of 349 members of staff. Interviews and questionnaires were used to collect the needed data for the research. The data from

the questionnaires and interviews was analysed using descriptive statistics that included correlation and regression analysis, percentages and averages. According to the findings of the research there was a positive relationship between the performance of employees and strategic human resource management in Kenyan commercial banks. This study focused on human resource management strategies but did not determine how human resource affected the firm performance.

Muriithi, (2016) studied the role of human resource management in cultural integration process among selected post-merged Kenyan commercial Banks. The study adopted a positivist philosophy on the mixed framework of research design comprising of descriptive, exploratory, and quantitative designs. The target population comprised of the 5998 employees of the acquired or merged organization from which a random sample of 361 employees. Both primary and secondary data was utilised. Logistic Regression model was used to establish the relationship between human resource management and cultural integration process and the strength of the relationship. The study concluded that recruitment and selection affect cultural integration if the practices are well governed and executed they affect cultural integration positively.

RESEARCH METHODOLOGY

The study adopted an explanatory and descriptive research designs. The target population comprised of the management team of Credit Only Microfinance Institutions in Nairobi City County, Kenya. This population was selected because they were the most informed about the firm affairs and performance. Sample of 171 respondents was selected from lower level, middle level and top level of management using stratified and simple random sampling techniques as recommended by Bryman and Bell (2015). The study used both primary and secondary data. Primary data was collected by use of semi-structured questionnaires which had both open and close ended questions. Pilot testing was conducted to ascertain the validity and reliability of the research instrument which was found to be valid in terms of face and content and reliable with an overall Cronbach's alpha coefficient of 0.891.

The collected data was analysed using descriptive statistics including mean, frequencies and standard deviation. Tables and were used to present the results. Linear regression analysis was also conducted to determine the relationship between the dependent and the independent variable as noted by Babbie (2015). The regression equation was estimated as follows:

$Y= \beta_0 + \beta_1 X_1 + €$

Where: - Y= Performance of Credit Only Microfinance Institutions in Nairobi City County, Kenya

β_0 =constant

$\beta_{1 =}$ Coefficients of Human Resources

X_3= Human Resources

€=Error Term

RESULTS AND DISCUSSIONS

The study targeted a sample size of 171 respondents from which 117 respondents filled in and returned their questionnaires making a response rate of 68% which according to Mugenda and Mugenda (2003) was good because it was greater than 60%. The response late for the senior management was 100% that of middle management was 66.7% while that of lower management 60.2%.

Descriptive statistics

The study sought to evaluate the effect of human resources on performance of credit only microfinance institutions in Nairobi City County. The respondents were required to express their opinion in a scale of 1-5 on the extent to which various aspects of human resources affected performance of their microfinance institution where 5 represented very great extent while 1 represented no extent. The results are as shown in Table 1.

Table 1: Descriptive Statistics on Human Resources

	N	Minimum	Maximum	Mean	Std. Deviation
We always consider employee skills when allocating duties.	117	1	5	4.21	.618
This firm considers the knowledge level of employees during the hiring process.	117	1	5	4.07	.771
When considering employees for promotion, work experience is highly regarded	117	1	5	3.69	1.170
Training and development	117	1	5	3.66	1.027
We put into consideration the staff experience when hiring new staff.	117	1	5	3.62	.944
We encourage our employees to form their own judgement at every decision level	117	1	5	3.17	1.234
We consider personal judgment when considering our employees for promotion	117	1	5	3.16	1.000
Aggregate				**3.654**	**0.966**

Source; Field Data (2018)

The results in Table 1 above showed that most of the respondents felt that microfinance institutions consider employee skills when allocating duties with a mean score of 4.21 and a standard deviation of 0.618, consider the knowledge level of employees during the hiring process with a mean score of 4.07 and a standard deviation of 0.771, highly regarding employees work experience for promotion with a mean score of 3.69 and a standard deviation of 1.170. The results also showed that microfinance institutions conduct training and development as shown by a mean score of 3.66 and a standard deviation of 1.027, consider staff experience when hiring new staff, with a mean score of 3.62 and a standard deviation of 0.944, encourage employees to form their own judgement at every decision with a mean score of 3.17 and a standard deviation of 1.234 and microfinance institutions consider personal judgment when considering employees for promotion with a mean score of 3.16 and a standard deviation of 1.000. On the basis of these results it was observed that considering employee skills when allocating duties and considering the knowledge level of employees during the hiring process were the most important aspects of human resources in affecting performance. The aggregate mean score for human resources was 3.654 with a standard deviation of 0.966 meaning that most of the respondents believed that human resources affected performance of their microfinance institution to a great extent. These results were consistent with the findings posted by Bidmeshgipour (2012) who found that a there exist a strong relationship between business performance and the human resources management practices. Further, Ngui (2015) studying the effect of human resource management strategies on performance of Kenyan commercial banks showed that a positive relationship exists between the performance and strategic human resource management.

Descriptive Statistics for Performance

The results were as shown in Table 2.

Table 2: Descriptive Statistics for Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Efficiency level	117	1	5	3.66	1.035
Net profit	117	1	5	3.55	1.055
Market share	117	1	5	3.42	1.011
Loan repayment rate	117	1	5	3.31	1.038
Retention rate	117	1	5	3.25	.899
Aggregate				**3.438**	**1.0076**

Source; Field Data (2018)

The results in Table 2 above showed that most respondents were of the opinion that efficiency level and net profit level in the microfinance institution improved as shown by a mean score of 3.66 and 3.55 and a standard deviation of 1.035 and 1.055 respectively. However, the study found that market share, loan repayment rate and retention rate remained constant as shown by a mean score of 3.42, 3.31and 3.25 with associated standard deviation of 1.011, 1.038 and 0.899 respectively. The study also observed that the aggregate mean score fore performance was 3.438 with a standard deviation of 1.0076 meaning that most respondents believed that the performance of their firm had remained relatively constant.

Regression Analysis

The study conducted linear regression model at 95 percent confidence level (α =0.05) with performance as the dependent variable and human resources as independent. The results of the regression are as shown in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.613[a]	.376	.371	.479

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.936	1	15.936	69.332	.000[b]
	Residual	26.433	115	.230		
	Total	42.369	116			

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.322	.508		2.6024	.011
Human resources	.403	.129	.318	3.1240	.002

Source; Field Data (2018)

The results in Table 3 showed a model summary, Analysis of Variance (ANOVA) and coefficients of the regression model. The correlation coefficient (R) between performance and human resources was 0.613 meaning that there was a strong positive correlation between the predicted and predictor variable. The value of R Square (R^2) was 0.376. This meant that the model was able to predict 37.6% of the changes in performance. The results also showed that the F statistic was 69.332. The F-statistic was found to be greater than F-critical (3.9236). The table also showed a significance level

of 0.000 which was less than the 0.05 significance level. Therefore, the study concluded that the model was fit.

The results also showed that the constant had a coefficient of 1.322 that if the independent variables were absent performance of credit only microfinance institutions in Nairobi City County would be 1.322. Human resources had a coefficient of 0.403 implying that if all other factors were held constant, a unit increase in human resources would increase in performance of credit only microfinance institutions in Nairobi City County by 0.403. At the same time, the P-values for human resources coefficients was 0.002 which was less than the significance level of 0.05. It was therefore concluded that human resources was significant in predicting performance.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that human resources affect performance of microfinance institutions to a very great extent. Moreover, the study concluded that considering employee skills when allocating duties, considering the knowledge level of employees during the hiring process, considering employees work experience for promotion, training and development and considering staff experience when hiring new staff affect performance of microfinance institutions to a great extent. However, encouraging employees to form their own judgement and considering personal judgment when considering employees for promotion affect performance of microfinance institutions only to a moderate extent.

The study therefore recommended that the management of microfinance institutions should carefully evaluate their human resources. Particularly the study recommended that the management should consider employee skills when allocating duties, consider the knowledge level of employees during the hiring process, consider employees work experience for promotion and training and development and consider staff experience when hiring new staff. Further, the study recommended that employees should be encouraged to form their own judgement and consider their personal judgment when considering employees for promotion but only to a moderate extent.

Finally, the study suggested that other studies should be conducted on other deposit taking microfinance institutions and other financial institutions such as commercial banks to establish if similar results would be obtained. Secondly, the study was based on data collected for a period of five years only. The study thus suggested that others studies should be conducted covering longer periods so as to establish if holding the resources for a longer period would help the firm gain competitive advantage and better performance in the long run.

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