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Original Article

Resource Allocation and Performance of Microfinance Institutions in Machakos County, Kenya

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This research study sought to determine the impact of resource allocation on the performance of MFIs in Machakos County. The study adopted a descriptive research design. The target population for the study included 63 staff members from the 21 registered MFIs in the county. The study utilized a 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 resource allocation. The questionnaire was structured with a 5-point Likert scale. Descriptive and Inferential statistics were used in the analysis of the data. The linear regression analysis method was used to assess the associations between resource allocation and performance. The study established that resource allocation positively influenced the performance of MFIs in Machakos County. The study concluded that the manner in which resources are allocated significantly affects the performance of microfinance institutions in Machakos County. The study recommends that policymakers and microfinance institution (MFI) leaders should prioritize developing clear guidelines and frameworks for efficient resource allocation.

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INTRODUCTION

Microfinance institutions (MFIs) play a crucial role in fostering economic development by providing financial services to low-income individuals and small enterprises that lack access to traditional banking services. These institutions are particularly vital in developing regions like Machakos County, Kenya, where access to formal financial systems is limited. However, like any other organization, the performance of MFIs is heavily influenced by how resources are allocated (Nguyen, 2020). Effective resource allocation ensures that these institutions can meet their operational needs, achieve sustainability, and fulfill their mission of poverty alleviation (Muriithi & Wachira, 2021).

The relationship between resource allocation and organizational performance has been a subject of extensive research in various sectors, including microfinance. Studies suggest that strategic allocation of resources such as capital, human resources, and technology significantly impacts the efficiency and effectiveness of MFIs (Nguyen, 2020). For instance, Adeyemi and Olayinka (2022) found that MFIs with better capital allocation practices demonstrated higher loan recovery rates and client satisfaction. This indicates that resource allocation is not only a determinant of financial sustainability but also influences the social impact of MFIs.

Despite the acknowledged importance of resource allocation, there is limited empirical research on how it affects the performance of MFIs in specific contexts such as Machakos County. This gap in the literature is critical, given the unique economic and social challenges faced by MFIs operating in this region. Machakos County, characterized by its semi-arid climate and fluctuating economic conditions, presents a unique environment where efficient resource allocation is essential for the survival and growth of MFIs (Karanja & Mwangi, 2021). Understanding how resources are allocated in these institutions and the subsequent impact on their performance can provide valuable insights for improving their operations.

Recent studies emphasize the need for MFIs to adopt innovative resource allocation strategies to enhance their performance. For example, digital transformation and the adoption of mobile banking have been identified as key areas where strategic resource investment can lead to significant performance improvements (Ochieng, 2023). In addition, investing in staff training and development is crucial for improving service delivery and operational efficiency, which are critical components of MFI performance (Mwiti & Kariuki, 2020). Therefore, exploring the various dimensions of resource allocation and their impact on performance can contribute to the development of more robust strategies for MFIs in Machakos County.

Resource allocation in MFIs can be complex, involving decisions about where to invest in human capital, technology, and financial products to maximize impact and sustainability. Studies have shown that MFIs that strategically allocate resources towards capacity building and technological innovation tend to exhibit better financial performance and customer satisfaction (Kimani & Wanjiku, 2020). Furthermore, the alignment of resource allocation with the institution's strategic objectives is critical for enhancing efficiency and competitiveness in the dynamic financial landscape of Machakos County (Waweru & Mwangi, 2021).

Statement of the Problem

Despite the critical role that microfinance institutions (MFIs) play in fostering financial inclusion and economic development, many MFIs in Machakos County, Kenya, struggle to achieve sustainable performance. Resource allocation has been identified as a key determinant of the success or failure of MFIs, yet there is a lack of empirical evidence on how different resource allocation strategies impact their performance in this specific region. Studies indicate that inefficient allocation of resources, particularly in terms of financial, human, and technological resources, is a significant barrier to the growth and sustainability of MFIs in Kenya (Kimani & Wanjiku, 2020). This issue is further compounded by the complex

regulatory environment and the diverse needs of clients in both urban and rural settings within Machakos County.

Recent statistics underscore the pressing nature of this problem. According to the Association of Microfinance Institutions of Kenya (AMFI-K), more than 30% of MFIs in the region have reported financial distress in the past five years, with many attributing their challenges to inadequate or misaligned resource allocation (AMFI-K, 2022). Furthermore, a study by Omondi and Kinyua (2023) found that MFIs in Machakos County that failed to invest adequately in technology and staff training experienced a 25% lower growth rate in customer outreach compared to those that strategically allocated resources in these areas. This disparity in performance raises concerns about the long-term viability of MFIs in the region and their ability to meet the financial needs of their clients. The problem is further exacerbated by external factors such as economic volatility and regulatory changes, which force MFIs to reallocate resources frequently, often with adverse effects on their performance. For example, Mwangi and Njenga (2019) reported that MFIs that had to redirect resources to meet new regulatory compliance requirements saw a significant decline in their profitability, which in some cases led to downsizing or closure.

This study sought to investigate the relationship between resource allocation and the performance of MFIs in Machakos County, Kenya. By examining how resources such as capital, technology, and human resources are allocated, the study seeks to identify best practices that can enhance the performance and sustainability of these institutions. The findings are expected to contribute to the existing body of knowledge and provide practical recommendations for policymakers and MFI managers in Machakos County and similar regions.

Literature Review

Theoretical Review

The Resource-Based View (RBV) is a strategic management framework that emphasizes the importance of an organization's internal resources in achieving competitive advantage and superior performance. According to RBV, resources that are valuable, rare, inimitable, and non-substitutable (VRIN) are the key drivers of an organization's sustained competitive advantage (Barney, 1991). These resources can include tangible assets such as financial capital and technology, as well as intangible assets like human expertise, organizational culture, and intellectual property. By effectively managing and leveraging these resources, organizations can develop unique capabilities that are difficult for competitors to replicate, thereby achieving superior performance in their respective markets (Peteraf & Barney, 2003).

In the context of microfinance institutions (MFIs) in Machakos County, the RBV can be applied to understand how resource allocation influences their performance. By identifying and strategically allocating VRIN resources—such as skilled personnel, advanced technology, and robust financial capital—MFIs can enhance their operational efficiency, expand their customer outreach, and improve service delivery (Njuguna & Gachanja, 2022). The RBV suggests that MFIs that effectively manage their internal resources are more likely to achieve sustainable growth and financial stability, even in the face of external challenges such as regulatory changes and economic volatility. Therefore, applying the RBV in this study provides a theoretical foundation for analyzing the relationship between resource allocation and performance, highlighting the importance of internal resources in driving the success of MFIs in Machakos County.

Empirical Review

Khan and Tariq (2020) in Pakistan explored the role of technological investments in enhancing the operational efficiency of MFIs. The study found that MFIs that allocated significant resources to technological innovations, such as mobile

banking platforms, experienced a 30% increase in customer outreach and a 20% reduction in operational costs. This demonstrates that strategic investment in technology can lead to significant improvements in performance, particularly in expanding access to financial services in underserved areas. These findings suggest that resource allocation in technology is critical for the sustainability and scalability of MFIs globally.

A study by Osei-Assibey and Musah (2021) in Ghana examined the effect of human resource management on the performance of MFIs. The study found that MFIs that invested in staff training and development reported higher levels of customer satisfaction and loan repayment rates. Specifically, MFIs that allocated at least 10% of their annual budget to employee training saw a 15% improvement in loan recovery rates compared to those that did not prioritize human resource development. This underscores the importance of investing in human capital as a strategic resource that can enhance the overall performance of MFIs. The study concluded that the effective allocation of resources to human capital development is crucial for improving the quality of services offered by MFIs and ensuring their long-term success.

Waweru and Mwangi (2021) focused on the alignment of resource allocation with strategic objectives in Kenyan MFIs. The study found that MFIs that aligned their resource allocation with their strategic goals were more likely to achieve financial sustainability. Specifically, MFIs that prioritized resources for market research and product development were better able to respond to customer needs, leading to a 25% increase in client retention rates. The findings indicate that strategic resource allocation is a key determinant of performance, particularly in a competitive and rapidly changing financial environment like Kenya.

Kimani and Wanjiku (2020) investigated the role of technological innovation in enhancing the performance of Kenyan MFIs. The study revealed that MFIs that invested in digital platforms, such as mobile money and online loan application

systems, experienced a significant increase in operational efficiency and customer base. MFIs that allocated more than 15% of their budget to technology reported a 35% increase in customer acquisition compared to those with lower technological investments. These findings highlight the critical role of technology in driving the growth and sustainability of MFIs in Kenya, particularly in expanding access to financial services in rural and underserved areas.

Omondi and Kinyua (2023) conducted a case study on the resource allocation strategies of MFIs in Machakos County, Kenya. The study found that MFIs that invested in both technological and human resources achieved better financial performance and customer satisfaction. Specifically, those that balanced their resource allocation between technology and human capital development reported a 20% higher profitability margin compared to those that focused predominantly on one area. This study provides empirical evidence that a balanced approach to resource allocation, considering both technological and human resources, is essential for optimizing the performance of MFIs in Machakos County.

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 resource allocation 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. All the staff suitable to provide the required data were 63

employees and were suited to this study as shown in Table 1 below. The study carried out a census. 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 Population and Sample

| 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. Questionnaires are considered effective tools for collecting data from willing respondents (Saunders et al., 2016). 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 resource allocation.

Data Analysis and Results

The collected quantitative data was coded and entered into Statistical Packages for Social Sciences (SPSS Version 26.0), which was employed for analysis through descriptive and inferential statistics. 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 resource allocation and performance of MFIs in Machakos County was as follows;

$$Y = \alpha + \beta_1 X_1 + \varepsilon$$

Where;

β_1 – Regression coefficient

X_1 – Resource Allocation

ε – Error term

Research Findings and Discussion

Introduction

A total of 63 questionnaires were distributed to the study participants. Among these, 58 questionnaires representing 92.0% were filled and returned while 5 questionnaires representing 8.0% were not returned. Also, the test for reliability showed that Cronbach's Alpha value for resource allocation was 0.897, which was acceptable.

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.

Resource Allocation and Performance of MFIs

The study found that Microfinance Institutions (MFIs) are committed to allocating various resources to enhance their performance through

effective strategy implementation. A majority of respondents agreed that MFIs ensure proper resource allocation, supported by a mean of 4.09 and a standard deviation of 0.657. Additionally, respondents indicated a strong commitment to resource allocation for strategy implementation, with means of 3.98 (SD = 0.713) for adequate resources, 3.88 (SD = 0.651) for relevant resources, and 4.00 (SD = 0.649) for necessary

human capital. Financial resources were deemed crucial, as reflected by a mean of 4.24 (SD = 0.683), and technological resources were also recognized as important, with a mean of 4.14 (SD = 0.661). These findings suggest that MFIs prioritize the allocation of financial, human, and technological resources to successfully implement strategies and improve performance.

Table 2 Resource Allocation and Performance of MFIs

| Variable | Mean | STD e DEV |
|---|------|-----------------|
| There is a clear way of allocating resources in your organization | 4.09 | 0.657 |
| Commitment and allocation of adequate resources for strategy implementation | 3.98 | 0.713 |
| Commitment and allocation of relevant resources for strategy implementation | 3.88 | 0.651 |
| Necessary human capital to enable strategy implementation | 4.00 | 0.649 |
| Financial resources to support strategy implementation | 4.24 | 0.683 |
| Technological resources to support strategy implementation | 4.14 | 0.661 |
| Average | 4.06 | 0.669 |

Regression Analysis

The regression analysis was applied to determine the impact of resource allocation on firm performance. The results are summarized in table

3 below. The coefficient for resource allocation ($\beta = 0.382$, p value = 0.000) indicates that for each unit increase in resource allocation, performance is expected to increase by 0.382 units, assuming all other variables remain constant.

Table 3 Model Summary

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-----------------------------------|---------------------|-----------------------------|------------|---------------------------|-------|-------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.487 | 0.527 | | 2.821 | 0.007 |
| | Resource Allocation | 0.382 | 0.087 | 0.444 | 4.401 | 0.0 |
| a Dependent Variable: Performance | | | | | | |

Conclusion and Recommendations

Conclusions

The study sought to determine the impact of resource allocation on performance of MFIs in Machakos County. The study established that there was a positive correlation between resource allocation and performance of MFIs in Machakos County. Proper resource allocation, strong commitment to resource allocation, necessary human capital, financial resources and

technological resources all contributed to strategy implementation, thus positively influencing the performance of MFIs in Machakos County.

The study unequivocally concluded that the manner in which resources are allocated significantly affects the performance of microfinance institutions in Machakos County. The positive and statistically significant relationship identified through regression and correlation analyses underscores the importance of efficient resource allocation strategies in

enhancing firm performance within this sector. Effective allocation not only boosts operational efficiency but also supports strategic growth initiatives, thereby contributing to overall organizational success.

Recommendations

The study recommended that policymakers and microfinance institution (MFI) leaders should prioritize developing clear guidelines and frameworks for efficient resource allocation. This may involve periodic assessments of resource needs against strategic goals, promoting transparency in budgeting processes, and ensuring that resources are allocated based on the identified needs and potential returns. Practical steps could include implementing robust financial management systems, training staff on resource optimization techniques, and leveraging technology for better resource tracking and utilization.

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Conflict of Interest

The authors declare that they do not have any conflict of interest

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