International Journal of Development and Economic Sustainability
Vol.3, No.5, pp.47-60, October 2015
Published by European Centre for Research Training and Development UK (www.eajournals.org)

SUSTAINABILITY DILEMMAS: MISSION DRIFT AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

Muriuki Catherine W, Maru Loice C, and Namusonge Mary

School of Business and Economics, Moi University, P.O. Box 63056, 00200, NAIROBI, Kenya

ABSTRACT: *Microfinance institutions face a number of dilemmas as they seek to achieve a double bottom line of providing financial services to the poor (outreach) and covering their costs sustainably. Microfinance institutions (MFIs) are therefore a hybrid model but some are also similar to banks because they are regulated and supervised and they mobilize deposits (Counts, 2008). Over the years MFIs have changed dramatically from the initial mission due to increased internal and external pressure to decrease dependence on subsidized or grant funding. Commercialization of microfinance is assumed to be a way of overcoming managerial and efficiency problems, and is thought to promote the large-scale expansion and sustainability. This paper explores the sustainability dilemma in mission drift outcome of commercialization and effect on performance of microfinance institutions. An Explanatory survey was carried out on 351 management staff of the 39 Micro finance Institutions in Kenya. The results of this study inform theory on the extent of application of the double bottom line model by MFIs that critical for achieving sustainability.*

KEYWORDS: Sustainability Dilemmas, Mission Drift, Performance of Microfinance Institutions

INTRODUCTION

Microfinance institutions have proved to be very important in the economic growth of any country. Improved performance of MFIs enhance financial deepening in an economy thereby contributing a great deal to an economy's development through the provision of major and basic financial services. Microfinance Institutions (MFIs) have risen to the forefront as invaluable institutions in the development process (Afsheen and Javaid, 2014). However, in recent years, there has been increased internal and external pressure for MFIs to decrease dependence on subsidized or grant funding. According to Anita (2012) consistent and simultaneous provision of massive scale, permanence and continuous efficacy is only possible if MFIs would focus on earning above average returns through doing business. According to Bernard (2012), 30 percent of domestic microfinance programs operating in 2001 were either no longer in operation or were no longer lending capital two years later.

The commercialization of microfinance is assumed to be a way of overcoming managerial and efficiency problems, and is thought to promote the large-scale expansion and sustainability of microfinance institutions (Kapur, 2014). However, despite the proven improvement in sustainability in some countries, commercialization of microfinance institutions was found to over indebt clients in MFIs in India and Bosnia, which eventually lead to an increase in non-performing loans (Hoque, Chishty and Halloway, 2011).

2053-2199 (Print), 2053-2202(Online)

Despite the increased commercialization of microfinance institutions in Kenya, very few studies have been conducted on commercialization of microfinance institutions and how its outcomes, such as mission drift influences performance (Bernard, 2012). This paper therefore explores the sustainability dilemmas associated to mission drift and how this affects the performance of microfinance institutions in Kenya.

LITERATURE REVIEW

Theoretical Review

This long tail theory serves to explain the commercialization effect on the mission drift for the MFIs. The theory suggests that the poor are situated at the long tail end of the wealth distributed function (Wagennar, 2012). They were often excluded from the access of financial services until the MFI s came along. The mission of the traditional MFIs was to alleviate poverty and to contribute to the empowerment of women especially in the rural areas. However, with commercialization, a mission drift has been observed in commercial based MFIs with more emphasis being put on profit making. The poor clients are no longer an attractive form of market due to the high operative costs, little or no deposits and unsustainability experienced in this market. Wagennar, (2012) asserts that commercialization offers a better alternative as MFIs become more sustainable and profitable with commercialization. However attained sustainability and profitability due to commercialization comes with a cost of mission drift as the MFI shifts from its earlier objective of alleviating poverty to a profit making objective. This leads to less clients at the tail end of the wealth distribution function being served by commercialized MFIs.

Empirical Review

According to Kipesha and Zhang (2013), some microfinance institutions that traditionally used to provide loans to micro entrepreneurs are moving into the consumer, mortgage and low-end commercial loan segments. At the same time, large consumer focused lenders are trying to compete on the microfinance market. Moreover, the private sector is increasingly becoming involved in microfinance. The involvement of traditional commercial banks in microfinance is growing rapidly around the world. In several developing countries, large state banks and private banks have started to provide microfinance services (Ahlin, Lin and Maio, 2011).

Afsheen and Javaid (2014) assert that the Microfinance sector is also considered to be heavily dominated by Non-governmental Organizations (NGOs), which are recently starting to look more like commercial institutions. Taking into account the great profitability of the sector, it seems that this transformation process has been very successful and has impacted the region in a very positive way. The shift towards commercialization has influenced the industry significantly. However, opinions on this paradigm shift in microfinance perspective have been divided. There are two opposing views of microfinance that represent different schools of thought- the Welfarists and Institutionalists (Anita, 2012).

2053-2199 (Print), 2053-2202(Online)

Sustainability dilemmas in MFIs begin from strategic thinking arising from their consciousness of the changing operating environment. Looking at microfinance and MFIs on a broad sense, sustainability is a necessary condition for MFIs and the microfinance field as a whole to deliver on their purpose for being. The ultimate purpose of these institutions is to ensure continued availability of credit for low-income borrowers. Donor funding and capital injection might be necessary at the start-up phase, but if a MFI is dependent on this and other subsidized loans continuously, the donors and benefactors can quickly run out of money (McIntosh and Wydick, 2005). To remain financially sustainable in an increasingly competitive environment, the idea to engage a profit-driven model creeps in.

Financial sustainability is expected to enhance the outreach of MFIs to poor people and thus stable and low-cost funds are crucial. Most MFIs have often received subsidies from governments or donors to cover their operational expenses. However, subsidies are controversial, with some critics contending that they foster lax management and reduce efficiency, and that they have not promoted the sustainable operations of MFIs. Olivares-Polanco (2005) points out that MFIs that operate with subsidized loan portfolios cannot achieve a wide outreach for either lending or savings operations because their lending interest rates are too low to cover the costs and risks of larger-scale financial intermediation.

According to Charitonenko and Rahman (2002), the increased focus on financial sustainability and efficiency by microfinance institutions is due to several developments. Most importantly, commercialization of microfinance takes place due to increased access to funding from commercial sources and the need for product diversification. Microfinance institutions enhance their ability to provide a wider range of financial services, such as savings funds and insurance services. It has also induced a move from group lending to individual-based lending.

Olivares-Polanco (2005) views sustainability and commercialization as two sides to the same coin – the realization that if the field of microfinance is to expand its scale beyond the supply of capital from non-profit sources, it must begin to tap the capital markets. This can only be done if microfinance works on market terms, and not just as a development project – as such, commercialization is very much related to pricing. Liquidity constraints induced by the worsening financial climate during 2008 and early 2009, might have revealed to MFIs that they cannot afford to be complacent about the availability of funding; to serve their clients during both booms and busts, they must have a buffer and be self-sufficient.

Commercialization of microfinance institutions has been adopted all over the world and it portrays both positive and negative effects. In India, commercialization translated into deluge of funds for investment in MFIs, caused huge market penetration, market saturation, multiple lending and over lending; and finally, over indebting their clients. The crisis in Andhra Pradesh is the worst case of this allegation (Kapur, 2014). This has not only happened in India but also in many other developing countries of the world such as Bosnia, Herzegovina, Morocco, Pakistan, Bolivia and Nicaragua with different dimensions and experiences (Hoque, Chishty and Halloway, 2011). However, microfinance institutions cannot avoid commercialization in the absence of subsidy and donor support as investors will not provide funds without financial incentives.

2053-2199 (Print), 2053-2202(Online)

According to Hossain (2013), commercialization of microfinance institutions is considered as an adoption of a for-profit orientation in administration and operation, such as developing diversified, demand-driven financial products and applying cost-recovery interest rates. Commercialization also leads to progression toward operational and financial self-sufficiency by increasing cost recovery and cost efficiency, as well as expanding outreach. Further, commercialization leads to the use of market-based sources of funds, for example, loans from commercial banks, mobilization of voluntary savings, or other nonsubsidized sources. With the commercialization of MFIs, it is assumed that managerial and efficiency problems will be overcome, thereby promoting the large-scale expansion and sustainability of microfinance. The ultimate goal of applying commercial principles to MFIs is for them to become formal financial institutions or banks (Hoque, Chishty and Halloway, 2011).

Capital market Institute (2013) report that commercialization of microfinance institutions comes with new regulations, mission drift and increase in products and services. Mission drift occurs when the size of the average loan increases. This indicates that an MFI has moved into new customer segments, either because it begins to include customers who are better off or because existing clients experience success and are thus able to take on larger loans. In addition, according to Ndeeri (2014), all microfinance institutions have to depict two kinds of self-sustainability before claiming to be self-sustainable. One is the operational self-sufficiency where all MFI's are required to depict full coverage of all their operational and administrative costs, including losses from bad loans, from their revenues from operations. The other is financial self-sustainability, whereby MFI's have to prove that they are meeting all their financial requirements through funds generated from internal operations and other commercial sources.

Performance of Microfinance Institutions

The performance of MFI can be considered from the social and financial perspectives. Social performance is the effective translation of an institution's social mission into practice. The social value of microfinance relates to the way financial services improve the lives of poor and excluded clients and their families and widen the range of opportunities for communities. Social performance is not just about measuring these objectives and outcomes but also about the actions and corrective measures taken by an MFI to generate those outcomes. It does not focus only on final impact. The aim is to determine whether the MFI gives itself the means to reach its social goals, by monitoring progress towards those goals and understanding how to use the information it gathers to make improvements in its operations.

According to Kapur (2014), the social perspective performance is gauged by the ability of the MFI to achieve it social objective of alleviating poverty. Thus a decline in the focus of poverty alleviation is evidence of the mission drift of the MFI. According to Kimando, Kihoro and Njogu (2012), the social performance can be evaluated in terms of the three measurers of the mission drift which include; depth of outreach, quality of outreach and scope of outreach. Depth of outreach is usually measured by the loan sizes with smaller loan sizes which are more affordable to the borrow signifying a deeper depth of outreach. Quality of outreach can be evaluated in terms of client to employee ratio while the scope of outreach can be explored in terms of satisfaction derived from the services offered by the MFI. However there is no widely accepted measure to measure the social performance of a MFI (Kapur, 2014).

2053-2199 (Print), 2053-2202(Online)

In generating the given social performance ratings for MFIs, Ana and Awaworyi (2012) used 8 different indicators. These indicators are the MFI's outreach, average outstanding balance/GNI per capita, cost per borrower, number of offices, operational self-sufficiency, percent of women borrowers, portfolio at risk after 90 days and write-off ratio. In a study on measuring the Social Performance of Microfinance in Europe, Botti and Corsi (2011) used a set of indicators which include the intent of the MFI, the effectiveness of the internal system and activities in achieving its targets, MFI outputs and eventually its capacity to positively affect clients life and achieve social goals.

It is widely known today that providing loans to micro-entrepreneurs has a relatively attractive potential to generate profits and growth. In some areas, like Asia, Africa and Latin America the profitability of MFIs is already squeezed by greater competition in the industry (Dacheva, 2011). There are several ratios that are available for evaluating the financial performance of the MFI for domains such a profitability, risk and leverage. The return of Assets (ROA) is used as a measure of profitability tracking the ability of an MFI to generate income based on its assets. The debt to equity ratio evaluates the MFIs leverage. Return on Equity (ROE) is a percentage ratio which presents how much equity was earned on the equity of a microfinance institution (Wagennar, 2012). This ratio is particularly important for commercialized MFIs as it shows the return of the investor's investment on the institution. It is an indicator of the profitability of the institution and it is used as a proximity for commercial viability.

Mission Drift and Performance of Micro Finance Institutions

Commercialization in MFIs can pose a dilemma to the MFIs. The efforts to attain financial sustainability and to reach a large scale of people can lead to the tendency of a MFI to provide larger loans to less poor people in addition to applying of stricter loan payment and screening procedures (Hamada, 2010). Thus, commercialization can lead to a drift from the MFIs poverty alleviation mission. Most micro finance institutions in less developed countries such as Kenya provide credit at low interest rates and thus enable the poor to easily afford financial capital. Although these loans might be small, they are enough for the poor to gain startup capital to start small businesses and also to purchase the needed raw materials for these businesses (Kimando, Kihoro and Njogu, 2012). The income generated from these businesses positively affect the lives of the borrowers and their families and lifts them out of poverty.

Although the micro finance movement in Kenya appears to be based on the altruist aims of alleviating poverty, the movement is currently facing an existential problem due to the increasing number of microfinance institutions converting to private for profit banks with the goal of increasing their growth and sustainability (Palanco, 2013). Commercialization often leads to a shift from the original goal of poverty alleviation for a MFI to the goal of profit making. However in spite of this, the mission drift caused by commercialization allows an MFI to be more financially independent due to increased funding sources and also due to the expansion of the MFI loan portfolios including other clients.

The evaluation of the mission drift for an MFI has to be connected to poverty alleviation as the major goal of a microfinance institution. Any shift from the poverty alleviation goal of any MFI or the change of focus to non-improvised clients is considered as a mission drift. According to

2053-2199 (Print), 2053-2202(Online)

Wagennar (2012), mission drift can be evaluated in terms of three measures; depth of poverty outreach which can be measured in terms of demographic statistics such as the clients loan sizes, income levels and interest rates. Quality of outreach is another measure which is the level of satisfaction to the clients due to the MFI products and services. This can be evaluated in terms of client to employee ratio. The third measure is the scope of outreach which refers to the services and products provided by the MFI. These measures can be used to evaluate the level of mission drift by looking at the changes in these measurers before and after commercialization (Kimando, 2012).

Before the commercialization of an MFI, the clients are mainly those below the poverty line. However, after commercialization although most MFI still remain dedicated to the poor, the number of clients who are below the poverty line decline as more clients who are above the poverty line access the MFI services. In addition, the interest rates of most loans become higher making such loans less accessible to low income groups (Ndi and Ngambi, 2014). The average loan size also increases with commercialization which suggests that most borrowers who are from the lower income levels as poor borrowers cannot be financed such loans. Though the MFI is able to earn higher profits due to such loans, the purpose of alleviating poverty would be better served by a large number of small loans. In addition, before commercialization most MFIs seek to mitigate poverty through non-financial services such as health and education but once a micro finance institution commercializes, the non-financial services offered decline. Thus commercialization often leads to mission drift which negatively affects the MFI performance in regard to its initial major objective of alleviating poverty. However, the financial performance in regard to profitability is positively affected by commercialization as operational costs decrease, the breath of outreach increases and sustainability of the MFI is improved (Darko, 2013).

This literature shows that commercialization leads to change in mission where the microfinance institutions change from focusing majorly on the poor and begin focusing on the more well up customers. However, most of these studies have been conducted in other countries (Darko, 2013; Wagennar, 2012; Palanco, 2013) with different MFI regulations and economic attributes. In addition, none of these studies shows how the change in the mission influences the performance of microfinance institutions.

Microfinance Institutions in Kenya

The Kenya Microfinance sector consists of a large number of competing institutions which vary in formality, commercial orientation, professionalism, visibility, size and geographical coverage. These institutions range from informal organizations e.g. rotating savings and credit associations ROSCAs), financial services associations (FSAs), NGOs, to commercial banks that are down scaling (Bernard, 2012).

The goal of MFI organizations in Kenya is to raise the levels of income and welfare of people. They support the poor and unemployed by giving them loans often without collateral to establish small businesses. Kenyans today are faced by increased poverty, unemployment and insecurity, food scarcity and rural urban migration among others. MFIs address the above problems by accessing small loans at affordable repayment rates, and other financial services for Micro and

2053-2199 (Print), 2053-2202(Online)

Small Enterprises (MSE). These take the form of self-help projects and individual enterprises (AMFI, 2013).

According to AMFI (2012), the microfinance sector in Kenya reaches out to nearly 1.5 million borrowers with the value of the outstanding loan book standing at KES 138.4bn as of Dec 2012 (USD 1.6 bn), and shows positive growth trends. However, growth rates in terms of borrowers are lower if compared to assets and portfolio growth, with an average of a mere 2.8% over the period under consideration.

Over 100 organizations, including about 50 NGOs, practice some form of microfinance business in Kenya. About 20 of the NGOs practice pure micro financing, while the rest practice micro financing alongside social welfare activities. Major players in the sector include Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust). The Kenya Post Office Savings Bank (KPSOB) is also a major player in the sector but only to the extent of providing savings and money transfer facilities (AMFI, 2013).

In relation to the performance of MFIs, AMFI report (2013) reported that the financial expense ratio (over gross portfolio) went up in 2012 as a result of the increase of interest rates on borrowings in the context of high inflation. The report also indicates that profitability and sustainability levels of the sector dropped dramatically as a result of higher operating and funding costs resulting from costly lending methodology and higher risk exposure. In addition, Operations self-sufficiency (OSS) decreased in the year 2012 and the decrease was attributable to the decreased performance of the DTMs subgroup as their OSS drops from 114% as of Dec 2011 to 104%. Further, the decreased levels of efficiency and profitability resulted from higher funding and operational costs. The fund costs over average portfolio jumped to 8.6% while operating costs over average portfolio jumped to 26.7%. In line with the operational model when excluding banks, the staff allocation ratio increases to 53.3% as more core microfinance operations require higher ranks of field staff. This shows that on overall, the operational self-sufficiency and sustainability of microfinance institutions in Kenya have been decreasing over the years (AMFI, 2013).

METHODOLOGY

This study used an explanatory design. The population of this study was the 351 management staff of the 39 Micro finance Institutions in Kenya. Since the population was small (351) a census was used (Mugenda and Mugenda, 2003). Both primary and secondary data were used. Primary data was collected a fresh for the first time from the respondents (Patten (2004) while secondary data was drawn from already information in the annual financial statements of the MFIs. A structured questionnaire was the key data collection tool was administered by the Drop-off/Pick-Up (DOPU) which according to Cooper and Schindler, (2006) results in significantly high response rates. A content scheduled was used to document data drawn from secondary sources. A pilot test was performed to test the validity and the reliability of the research instrument. Content validity was improved by seeking the opinions of experts in the field of study, particularly the supervisors. Also, the face validity of the research instrument was improved by carrying out a pilot test and changing

2053-2199 (Print), 2053-2202(Online)

any unclear and ambiguous question (Miller and Salkind, 2002). Reliability test for internal consistency of the measures of the constructs was checked by use of Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing consistently with increase in value. Coefficient of 0.6-0.7 is a normally accepted rule of thumb that designates acceptable reliability and 0.8 or higher indicated good reliability (Neuman, 2006). For this study, the Cronbach's Alpha coefficients were stable above 0.7.

EViews statistical program was used to perform descriptive statistical analyses that include percentages, frequency distribution, measures of central tendency (mean) and measures of dispersion (standard deviation). Inferential statistical analyses such as chi square, correlation analysis and multivariate regression analysis were also performed to evaluate the effects of mission drift on performance of MFIs. The findings were presented in tables and figures (bar charts and pie charts).

RESULTS

To determine the extent of mission drift on the performance of MFIs, the respondents were asked to indicate the extent to which they agree with various statements on mission drift after commercialization of microfinance institutions. Where 1 was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree. From the findings as shown in Table 1, the respondents agreed with a mean 3.904 and a standard deviation of 0.884 that their institution had undergone commercialization. The respondents also agreed with a mean of 3.863 and a standard deviation of 0.871 that their institution had stricter loan repayment procedures after commercialization. The respondents also agreed with a mean of 3.863 and a standard deviation of 0.838 that their institution had stricter screening procedures after commercialization. The respondents also agreed with a mean of 3.520 and a standard deviation of 0.973 that after commercialization their microfinance institutions had changed their focus from poverty alleviation. This findings confirm that three facts on mission shift in MFIs: that commercialization has been effected the associated business model practices of stricter loan repayment procedures and stricter screening procedures and thus a clear indication of change in focus from poverty alleviation to commercialization.

The respondents were neutral on whether the mission of their microfinance institution had changed after commercialization. This shows by a mean of 3.479 and a standard deviation of 1.055. The respondents were neutral on whether their institutions charged higher interest rates after commercialization as indicated by a mean of 3.452 and a standard deviation of 0.972. The respondents were further neutral on whether commercialization had changed the focus of their institution from poverty alleviation as shown by a mean of 3.411 and a standard deviation of 0.879. In addition, the respondents were neural on whether their institution ensures provision of loans to less poor people after commercialization as indicated by a mean of 3.150 and a standard deviation of 1.113.

These neutral responses imply point of dilemmas in mission drift – what MFIs ought to be clear with in their operations as these reflect their initial reason for being. Neutrality reflect a point of indecisiveness in appropriateness of interest rates on loans (pricing), focus on poverty alleviation

2053-2199 (Print), 2053-2202(Online)

and provision of loans to less poor people. These are the three traditional practices of MFIs world over that continue hanging in the minds of MFIs entrepreneurs and become areas reflection

Table 1: Effect of Mission Drift in MFIs

	Strongly disagree	disagree	Neutral	agree	strongly agree	Mean	Std. Deviation
Our microfinance institution undergone commercialization	5.5	5.5	19.2	47.9	21.9	3.753	1.037
The mission of our microfinance institution has changed after commercialization	4.1	13.7	28.8	37.0	16.4	3.479	1.055
Our institution has undergone commercialization	0	8.2	19.2	46.6	26.0	3.904	.884
After commercialization our microfinance institutions has changed their focus from poverty alleviation	5.5	8.2	24.7	52.1	9.6	3.520	.973
Commercialization has changed the focus of our institution from poverty alleviation	1.4	15.1	31.5	45.2	6.8	3.411	.879
Our institution ensures provision of loans to less poor people	12.3	11.0	32.9	37.0	6.8	3.150	1.113
Our institution has stricter loan repayment procedures	4.1		20.5	56.2	19.2	3.863	.871
Our institution has stricter screening procedures	1.4	2.7	26.0	47.9	21.9	3.863	.838
Our institution has drifted from the MFIs poverty alleviation mission	1.4	16.4	35.6	39.7	6.8	3.342	.885
Our institution charge higher interest rates	4.1	8.2	39.7	34.2	13.7	3.452	.972
Average Mean and Standard Deviation						**3.573**	**0.951**
Cronbach's Reliability Alpha		**0.724**					

Source: Survey Data (2015)

Performance of Microfinance Institutions

The findings were as shown in Table 2 indicate all the three indicators of performance of MFIs rated as good as follows: the financial efficiency of their institutions with a mean of 3.575 and a standard deviation of 0.643; operational efficiency with a mean of 3.643 and a standard deviation

2053-2199 (Print), 2053-2202(Online)

0.770; and profitability with a mean of 3.534 and a standard deviation of 0.668. This implies that the MFIs are currently sustainable financially. However, the social value indicators of performance need to be incorporated to capture the social relevance that is critical in the initial mission of MFIs to achieve a double bottom line.

Table 2: Measures of Performance in their Microfinance Institution

	Poor	Bad	Moderate	Good	Excellent	Mean	Std. Dev.
Financial efficiency	0	4.1	38.4	53.4	4.1	3.575	.643
Operational efficiency	0	6.8	32.9	49.3	11.0	3.643	.770
Profitability	0	5.5	39.7	50.7	4.1	3.534	.668
Average Mean and Standard Deviation						**3.584**	**0.694**

Source: Survey Data (2015)

Correlation Analysis

Correlation analysis was used to determine the extent of association between mission drift and performance of MFIs and further to show the direction of the relationship – whether it is positive, negative or zero. Results (Table 3) showed a positive relationship between mission drift and the performance of microfinance institutions, where the correlation coefficients was 0.288 and a p-value of 0.013. This implies that further drift from the initial may be reflected in increased performance of MFIs. However, results may be different when indicators of social value are incorporated in measures of performance.

Table 3: Correlation Coefficients

		Performance of MFIs	Mission drift
Performance of MFIs	Pearson Correlation	1	.288*
	Sig. (2-tailed)		.013
Mission drift	Pearson Correlation	.288*	1
	Sig. (2-tailed)	.013	

Source: Survey Data (2015)

Regression Analysis

Simple regression analysis was performed to determine the effect of mission drift on performance. A null hypothesis was tested. The findings showed that there is a positive relationship between mission drift and the performance of microfinance institutions as shown by a coefficient of 0.117. However, the relationship is not significant as the p-value (0.065) is greater than the level of significance (0.05). Since the p-value (0.065) for the association between mission drift and performance of microfinance institutions is greater than the significance level (0.05) we fail to reject the null hypothesis. This implies that there is no association between mission drift and the performance of microfinance institutions in Kenya.

2053-2199 (Print), 2053-2202(Online)

Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	Sig.
	B	**Std. Error**	**Beta**	
(Constant)	1.515	.444		.001
Mission drift	.117	.105	.007	.065
ANOVA				
F 36.209				.000

Source: Survey Data (2015)

CONCLUSION

The study concludes that there is no significant effect of mission drift on the performance of microfinance institutions. These findings are contrary to Kapur (2014) argument that mission drift of the MFI affects the performance of microfinance institutions positively. Commercialization of microfinance institutions leads to stricter loan repayment procedures, screening procedures and changed focus from poverty alleviation. These findings are contrary to Hamada (2010) argument that even after commercialization microfinance institutions were offering loans to both poor and less poor individuals.

Commercialization being a new strategy to compliment the initial mission of MFIs to alleviate poverty by outreaching programs to the poor, results of mission drift and performance may not provide clear results in the absence of the indicators of social value in the measurement of performance. However, there is definite clarity in MFIs of practices that enhance financial sustainability of commercialization agenda and neutrality in those that that support the initial social mission of the firms. Neutrality indicates a neither-here-nor-there strategy to maintain the initial mission in MFIs. Traditionally, the bottom line of MFIs is to achieve financial and social goals and hence sustainability. Thus, unclarified pursuit of social goals creates sustainability dilemmas for MFIs that have not taken a total paradigm shift adapt commercialization model.

RECOMMENDATIONS

Implications to Theory

The long tail theory suggests that the poor are situated at the long tail end of the wealth distributed function. They are often excluded from the access of financial services until the MFIs came along. The mission of the traditional MFIs was to alleviate poverty and to contribute to the empowerment of the community especially in the rural areas. The findings of this study, however, show that with commercialization a mission drift has been observed in commercial based MFIs with more emphasis being put on profit-making than the on the initial mission of alleviation of poverty. This continues the cycle of poverty among the poor who initially was the market niche for social value that MFIs existed for.

2053-2199 (Print), 2053-2202(Online)

Implications to Policy and Practice

The study established that most of the MFIs were drifting from their mission whose focus is on providing financial services to the poor. Current pursuit of social goal and their outcomes still remain unclear. This study therefore recommends that even after commercialization, microfinance institutions should give their first priority to the initial mission of serving the poor and track the associated social value. To achieve the double bottom line, MFIs should resolve the dilemmas arising from their shift to commercialization. In the increasingly competitive microfinance environment, the institutions need to ensure that their loan repayment and screening procedures still appeal to the need of the poor after commercialization and where possible have differentiated procedures and create social products unique to them.

Implication for Further Research

The study found that there was no association between mission drift and performance of deposit taking microfinance institutions. The study therefore recommends that further studies should be conducted on the relationship between mission drift as an outcome of commercialization and social performance of deposit taking microfinance institutions. Inclusion of social indicators of performance may give clearer and different results.

REFERENCES

Afsheen, A. and Javaid, A.Y. (2014). Commercialization and Mission Drift — A Cross Country Evidence on Transformation of Microfinance Industry. *International Journal of Trade, Economics and Finance, 5*(1), 122-132

Ahlin, C., Lin, J. and Maio, M. (2011). Where does microfinance flourish? Microfinance institution performance in macroeconomic context. *Journal of Development Economics 95*(2), 105.

AMFI (2013). *2012 Annual Report on Microfinance Sector in Kenya.* Retrieved from www.microfinanzarating.com

Ana, M. & Awaworyi, S. (2012). Microfinance social performance: a global empirical study. *Applied Econometrics and International Development*, 12(2), 1-7

Anita, C. (2012). Challenges to Microfinance Commercialization. *Journal of Microfinance, 4*(2), 57-62

Babbie, E. R. (2007). *The basics of social research* (4th ed.). Australia: Thomson/Wadsworth.

Bernard, G.A. (2012). *Determinants of operational sustainability of micro finance institutions in Kenya.* Retrieved from http://erepository.uonbi.ac.ke

Botti, F. & Corsi, M. (2011). Measuring the Social Performance of Microfinance in Europe. *CEB Working Paper No 11/037*, Solvay Brussels School of Economics and Management Centre.

Capital Market Institute (2013). *The Commercialization of Microfinance in Latin America.* Retrieved from http://www.microcapital.org/downloads/whitepapers/Latin.pdf.

Charitonenko, S. and Rahman, S.M. (2002). *Commercialization of microfinance Institutions in Bangladesh.* Retrieved from http://www.bwtp.org

Cooper, D. R. and Schindler, P. S. (2006). *Business Research Methods.* New Delhi: Tata McGraw Hill.

2053-2199 (Print), 2053-2202(Online)

Counts, A. (2008). Reimagining Microfinance. *Stanford Social Innovation Review, 6*(3), 46-53.
Creswell, J.W. (2008). *Educational research: Planning, conducting, and evaluating quantitative and qualitative research* (3rd Ed). Upper Saddle River, NJ: Prentice Hall.
Dacheva, P. (2011). *Commercialization in microfinance- a study of profitability, outreach and success factors within the Latin American context*. Retrieved from http://www.sbc.edu/sites/default/files/Honors/PDacheva.pdf
Daher, L., and Le-Saout, E. (2015). The Determinants of the Financial Performance of Microfinance Institutions: Impact of the Global Financial Crisis. *Strategic Change*, *24*(2), 131-148.
Darko, F.A. (2013). Commercialization and Efficiency of Microfinance Institutions in Sub Saharan Africa. *School of Economics*, University of Kent, UK.
Greener, S.L. (2008). *Business Research Methods.* Copenhagen: Ventus Publishing ApS.
Hamada, M. (2010). Commercialization Of Microfinance In Indonesia: The Shortage Of Funds And The Linkage Program. *The Developing Economies, 48*(1), 156–76
Hoque, M., Chishty, M. and Halloway, R. (2011). Commercialization and changes in capital structure in microfinance institutions: An innovation or wrong turn? *Managerial Finance, 37*(5), 414-425
Hossain, S. (2013). Is Commercialization of Microfinance Responsible for Over-Indebtedness? The Case of Andhra Pradesh Crisis. *Journal of Economics and Sustainable Development, 4*(17), 142-158
Kapur, S. (2014). *Commercialization of Microfinance Institutions in India: A Debate between Financial Sustainability and Poverty Outreach.* Retrieved from http://www.econ-jobs.com
Kathleen, B. and Lapan, S.D. (2004). *Foundations for research: Methods of inquiry in education and the social sciences.* Mahwah, NJ: L. Erlbaum Associates
Kimando, L., Kihoro, J. and Njogu, G. (2012). Factors influencing the sustainability of micro-finance institutions in Murang'a municipality. *International journal of business and finance*, 1, 21-45
Kipesha, E.F. and Zhang, X. (2013). Sustainability, Profitability and Outreach Tradeoffs: Evidences from Microfinance Institutions in East Africa. *European Journal of Business and Management, 5*(8), 136-142
Kiweu, J.M. (2011). Relaxing Financing Constraint In The Microfinance Industry: Is Commercialization The Answer? *Journal of Business & Economics Research (JBER), 9*(10), 23-35
Kothari, C. R. (2004). *Research methodology*: *Methods and techniques*. New Delhi: New Age International (P) Limited Publishers
Kyereboah-Coleman, A. (2007). *The Determinants Of Capital Structure Of Microfinance Institutions In Ghana.* Received from http://sajems.org/index.php/sajems/article/view/587/229
McIntosh, C. and Wydick, B. (2005). Competition and Microfinance. *Journal of Development Economics*, 78, 271–298
Monzurul, H., Muhammad, C. & Halloway, R. (2011). Commercialization and changes in capital structure in microfinance institutions: An innovation or wrong turn? *Managerial Finance, 37*(5), 414 - 425
Mugenda, O.M. and Mugenda, A.G. (2003). *Research Methods: Qualitative and Quantitative Approaches.* Nairobi: Acts Press.

2053-2199 (Print), 2053-2202(Online)

Mwangi, M. W. (2013). Effect of competition on the loan performance of deposit taking microfinance institutions in Kenya: A case of Nairobi region. *International Journal of Social Sciences and Entrepreneurship, 1*(2), 702-716

Myers, C. and Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics, 13*(2), 187–221.

Ndeeri, L.W. (2014). *The Determinants Of Transformation Of Microfinance Institutions Into Deposit Taking MFIs in Kenya*. Retrieved from http://erepository.uonbi.ac.ke:8080/

Ndi, G. and Ngambi, M.T. (2014). Competition and performance of microfinance institutions in Cameroon. *International Journal of Research In Social Sciences, 3*(8), 1-21

Neuman, W. L. (2006). *Social research methods: Qualitative and quantitative approaches*. (6th Ed). Boston, MA: Allyn & Bacon.

Njuguna, J. (2014).Relationship *Between Commercialization And Financial Performance Of Microfinance Institutions In Kenya*. Retrieved from http://erepository.uonbi.ac.ke/

Olivares-Polanco, F. (2005). Commercializing Microfinance and Deepening Outreach: Empirical Evidence from Latin America. *Journal of Microfinance*, 7, 47-69

Patten, M. L. (2004). *Understanding research methods: An overview of the essentials*. 4th ed. Glendale, CA: Pyrczak Publishing.

Polanco, F. (2013). Commercialization microfinance and deepening outreach? Empirical evidence from Latin America. *Journal of microfinance, 7*(2), 45-49

Rahman, M.A and Mazlan, A.R. (2014). Determinants of Operational Efficiency of Microfinance Institutions in Bangladesh. *Asian Social Science, 10*(22), 1911-2025

Schafer, K. and Fukasawa, Y. (2011). Factors Determining the Operational Self-Sufficiency Among Microfinance Institutions. *Advances in Business Research, 2*(1), 172-178

Wagenaar, K. (2012). Institutional transformation and mission drift in microfinance. *Centre of Development Studies,* University of Cambridge

2053-2199 (Print), 2053-2202(Online)