Article

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The Link between Product and Performance of Microfinance Institutions

Bello Taofik Abidemi[1], Mohammed Umar Usman[2], Abubakar Umar[3], Dauda Adamu Abubakar[4]

[1,4]Nigerian Institute of leather and science technology, E-mail: taofikbido@gmail.com (Corresponding author)
[2]Jigawa State Polytechnic Dutse, Department of Business Administration
[3]Al-Qalam University Katsina, Department of Business Administration

Abstract

The purpose of the study is to explore the effect of service product on microfinance financial performance. The study also observes the moderating effect of turbulent environment on the link between service product and performance of MFIs in Nigeria. A total of 231 senior managers were used in data analysis through a survey questionnaire. The study is cross sectional in nature. Smart PLS 3.0 was used in testing the measurement and structural model. The findings revealed that service product is significantly related to MFI financial performance; however turbulent environment did not moderate the link between service product and MFI financial performance. The findings of the study are important to researchers and policy makers.

Key words

Service product, environmental turbulence, microfinance performance

JEL Codes: G21

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1. Introduction

Microfinance institution have been identified to be one of the drivers of economic growth, help in the reduction of poverty, provides small medium enterprises with small loans to start up their business ventures thereby creating jobs for the masses in both developed and developing economies (Adenutsi, 2009; Akanji, 2006; Boateng *et al.*, 2015; Bruton, Ahlstrom and Si, 2015; Dirks, 2011; Imai *et al.*, 2010; Prior and Argandona, 2009; Weiss and Montgomery, 2005). Microfinance institutions is one of the most important and effective tool in the creation of credit market which is targeted at the less privilege and those deprived access to the conventional banking credit (Al-Shami *et al.*, 2013). However, there are limited studies that have attempted to investigate microfinance institutions from strategic management perspective (Homaid *et al.*, 2015). Similarly, very few studies have investigated microfinance institutions based on the products/ services rendered and relating it to performance. For a business firm to be efficient and effective, they have to offer innovative products and services to their customers to be able to compete in the competitive market and enhance customer satisfaction (Abdulai and Yusif, 2012; Akroush, 2011; Magutu *et al.*, 2013). The rate of unpredictability in the environment makes firms to offer their best services to keep and attract new customers by using their resources and capabilities in surviving and dealing with threats that presents itself (Li *et al.*, 2008; Baker and Sinkula, 2009). The unpredictability in the environment have lead managers to change decisions and be proactive in attaining improve their firm's performance and competitive edge. Researchers have also revealed that firms that provide innovative services centers on achieving improved firm performance and competitive advantage (Akroush, 2011; Arokiasamy, 2012; Bello, 2017; Agarwal *et al.*, 2003). Researchers noted that service product leads to improved performance (Vahedi *et al.*, 2014; Aremu and Bamiduro, 2012; Akroush, 2011; Farrell *et al.*, 2008; Alsharqi *et al.*, 2013; Gruber-Muecke and Hofer, 2015). Similarly, organizations that take note of changes due to turbulent environment can leverage on such changes thereby gaining competitive advantage and improved performance (Goll and Rasheed, 2004). Turbulent environment can strengthen the relationship that exist between service product and microfinance performance by creating innovative services/products before competitors set in there by gaining competitive edge. Nevertheless, moderating effect of turbulent environment on service product as not received much attention by researchers which is a literature gap which the study wants to fill.

2. Literature review

2.1. Service product

Service product is anything tangible or intangible which is offered for attention, acquisition, or consumption which is capable of satisfying a need or want (Kotler and Amstrong, 2012). Service product is the most important element in the service marketing mix. A process through which firms distinguish their products from that of competitors by offering distinctive or

unique qualities to their core products which adds value to what the firm offers to the public (Mahmood and Khan, 2014). Most studies on service product were conducted in conventional banks and revealed significant association between service product and performance (Remi *et al.*, 2012;. Agrawal and Kurshina, 2015). Empirical studies revealed that there is a positive connection between service product and organizational performance (Mohammad, 2015; Pour *et al.*, 2013; Remi *et al*., 2012). However, the findings of the studies vary. Some studies revealed significant relationship (Mohammad, 2015) while some studies revealed no association between service product and firm performance (Mohammed and Khan, 2014, Adeleke, 2015. The inconsistencies in the literature and also lack of studies in the microfinance industry relating service product to performance is a research gap which the present study wants to fill. Thus, H1: there is a significant link between service product and microfinance performance.

2.2. Environmental turbulence as a moderator

Scholars have come to a consensus that organization can sustain competitive advantage and gain success in the market by been aware of what happens in its environment and respond favorably by tackling forces in the environment in which it has no control over (Galbraith, 2002). Turbulent environment is an "environment with high degree of inter-period change that causes dynamism and uncertainty" (Samson and Mahmood, 2015). Researchers have viewed environmental turbulence from different perspectives such as an environment which affects the way an organization behaves and consequently affects performance of firms, dynamic environment which is unpredictable, an environment with uncertainty, dynamic and unexpected occurrences, unstable and fluctuating environment (Boyne and Meier, 2009; Emery and Trist, 1965; Grundvåg Ottesen and Grønhaug, 2004; Khandwalla, 1977). Services that are been rendered largely depends on the turbulent environment. Turbulent environment affects can affect managerial decision making and strategies to be implemented in reaching the customer in the microfinance industry (Atuahene-Gima, 1995). In order words, the study posits that: H2: Turbulent environment moderates the association between service product and MFI performance.

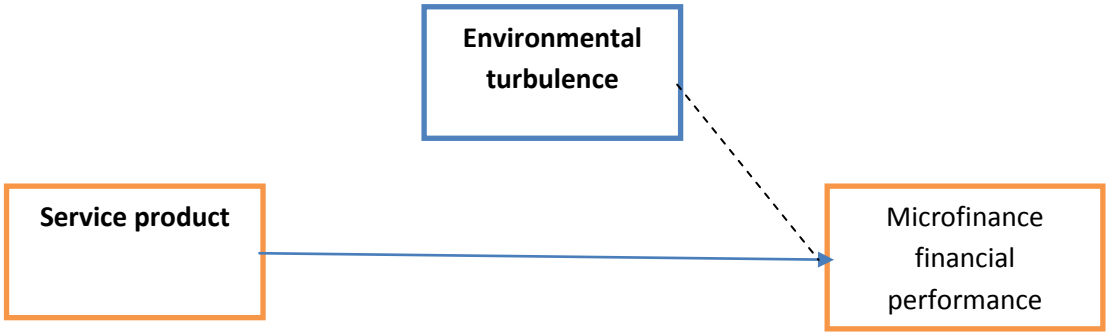

Figure 1. Conceptual model

3. Methodology of research

The research was quantitative in nature and cross sectional in nature, that is data was collected once using questionnaire survey design. The questionnaire was distributed to key respondents responsible for making decisions in microfinance institutions who are senior managers and managing directors. A total of 231 were used in analyzing the data. The measures for measuring environmental turbulence were adapted from the work of Jantunen *et al.*, (2005) which has been used in the service sector. In measuring service product, the scale of Akroush (2011) was adapted and in measuring financial performance of microfinance institutions the scale of CGAP (2003) was made use of.

3.1. Analysis and research findings

The study used PLS method in evaluating the validity and reliability of structural and measurement model (Henseler *et al.*, 2009).

3.2. Measurement model

In evaluating the validity and reliability of the measurement model, the present study made use of three techniques which are discriminant validity, content validity and convergent validity (Hair *et al.*, 2011; Hair, Sarstedt *et al*., 2012). The findings reveal that all cross loadings of item are above 0.60, which further confirms the validity and reliability of individual items there by validating content validity. In the same vein, convergent validity is also validated since comp reliability and Cron Alpha is greater than 0.70. Lastly, AVE is also higher than 0.50. The table below shows the measurement model.

Table 1. Results of measurement model

Construct	Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Service product				
PRD1	0.789	0.818	0.875	0.590
PRD2	0.893			
PRD3	0.866			
PRD4	0.604			
PRD7	0.643			
Environmental turbulence				
ET1	0.800	0.849	0.892	0.625
ET2	0.863			
ET3	0.860			
ET4	0.654			
ET6	0.758			
Financial performance				
FP1	0.918	0.957	0.967	0.855
FP2	0.871			
FP3	0.952			
FP4	0.942			
FP5	0.937			

The table 2 below shows the discriminant validity which reveals the square root of AVE, placed on the diagonal and shows that the correlation matrix off diagonal elements in corresponding column and rows. The result shows that discriminant validity has been ascertained and confirmed (Fornell and Larcker, 1981; Hair *et al*., 2011). Furthermore, discriminant validity was also performed using (HTMT) technique. Discriminant validity is achieved when the threshold is below 0.90 (Dijkstra and Henseler, 2015; Henseler and Chin, 2010). From the table below, it can be concluded that HTMT is achieved since no value is above the threshold of 0.90. This indicates adequate discriminant validity.

Table 2. Fornell-Larcker Criterion

	1	2	3
ENVIRONMENTAL TURBULENCE	0.791		
FINANCIAL PERFORMANCE	0.351	0.924	
SERVICE PRODUCT	0.283	0.625	0.768

Table 3. Heterotrait-Monotrait Ratio (HTMT)

	1	2	3
ENVIRONMENTAL TURBULENCE			
FINANCIAL PERFORMANCE	0.380		
SERVICE PRODUCT	0.333	0.702	

3.3. Structural model

In order to confirm the structural model, three criteria where used which are R2, predictive relevance and path coefficients significance (Hair *et al.*, 2011; Chin, 1998). The R2 for the model is 42.3%, which explains that 42.3% of microfinance performance is explained by service product and environmental turbulence. The R2 is substantial since it is greater than 0.26% (Chin, 2010). Similarly, cross-validated redundancy is more than 0 (Fornell and Larcker, 1994), which is above the threshold set by scholars as depicted in table 3 above. In order words, the study structural model is confirmed.

Table 4. Structural model

Variable	R2	Cross validated redundancy	Cross-Validated Communality
Microfinance performance	42.3%	0.0837	0.8545

After confirming the validity and reliability of study variables, the study moved to confirm the research hypothesis by testing the relationship among the variables using PLS algorithm and bootstrapping. The table and figure 2 and 3 shows the path coefficient and bootstrapping of study constructs. The result shows that service product is significantly related to Microfinance financial performance ($\beta = 0.571$, $t = 9.482$, $p > 0.1$). Similarly, to estimate the moderating effect using bootstrapping procedure (Fassott *et al.*, 2016). In estimating the moderating effect, product indicator technique was made

use of as recommended by researchers (Henseler and Chin, 2010). The result shows that environmental turbulence did not moderate the relationship between service product and MFFP (β = 0.189, t = 0.751, p >0.1). The result of the full structural model is shown in table 3 and figure 2 below.

Table 5. Results of Full Structural Model

NO	Hypothesis	Path coefficient	Standard error	P.value	T.Value	Decision
H1	SP-> MFP	0.571	0.060	0.000	9.482	Supported
H2	SPx ET -> MFP	0.189	0.284	0.453	0.751	Not supported

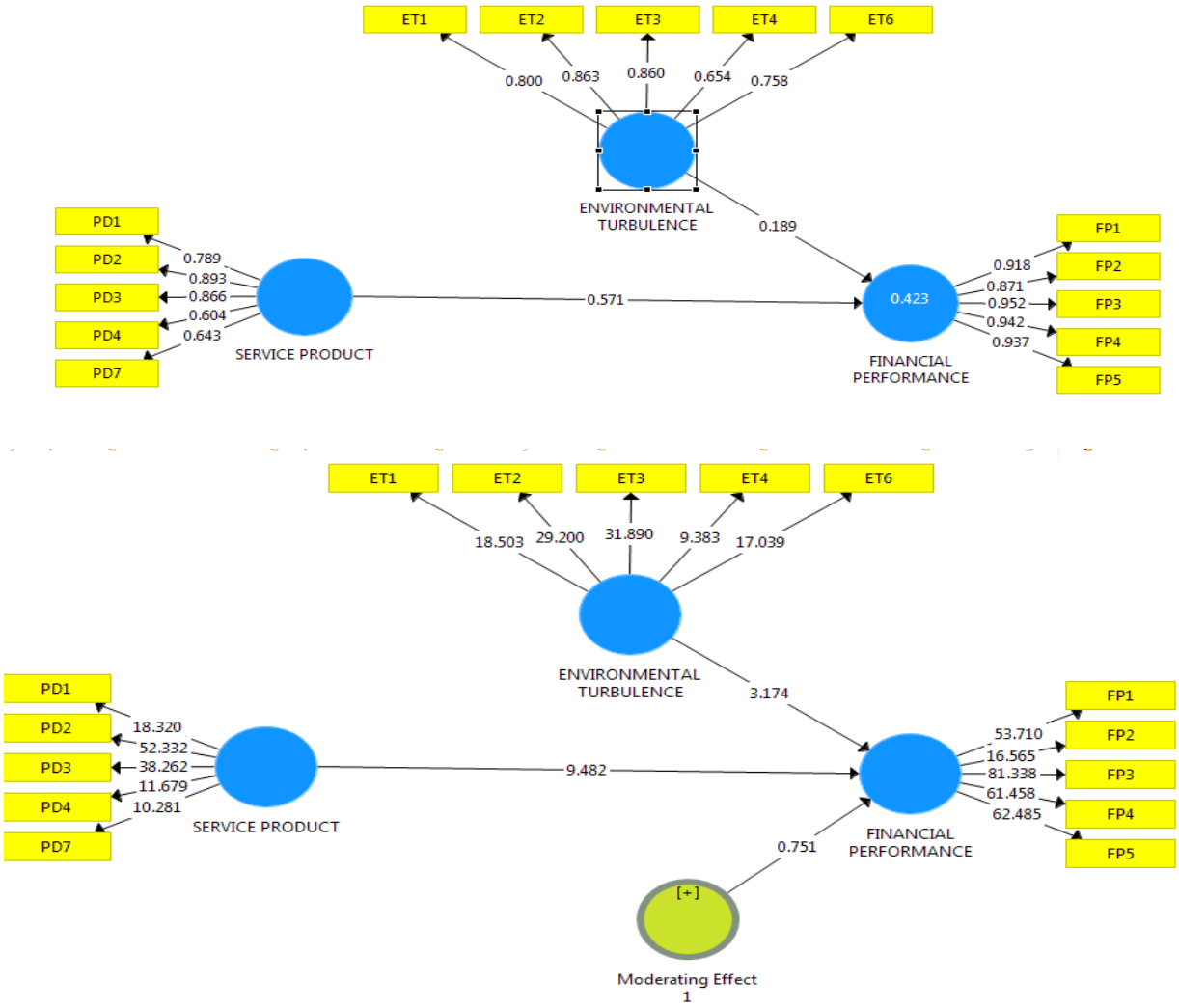

Figure 2. Full Structural Model

4. Discussions and conclusions

The study presents the effect of service product on microfinance performance. Similarly, it also presents the moderating effect of turbulent environment on the association between service product and MFI performance in Nigeria context. The result of bootstrapping did not find any moderating effect of environmental turbulence on the relationship between service product and microfinance performance. The finding is consistent with previous studies that failed to find moderating effect of environmental turbulence (Aziz and Yasin, 2010; Jaworski and Kohli, 1993; Samson and Mahmood, 2015). However, service product is positively and significantly related to microfinance financial performance which is consistent with previous studies that found a positive relationship (Akroush, 2011; Pour *et al.*, 2013; Remi *et al.*, 2012) with reference to the study context, mangers should focus on what their service offerings are in improving performance of their institutions.

5. Theoretical and Practical Implications

The study as contributed to the literature in both practical and theoretical way to managers and academicians. By examining the association between service product, Environmental turbulence and microfinance financial performance which is a significant contribution because such relationship is rare to find in the literature. Similarly, by examining the moderating effect of environmental turbulence is also a key contribution in the field of management and marketing studies. With respect to contingency and resource base theory the study confirms that internal organizational resources and capabilities are important for MFIs to achieve improved performance and achieve competitive edge. Similarly, using contingency theory in explaining the moderating effect of Environmental turbulence, the study did not find any moderating effect. One possible reason for lack of moderating effect in the microfinance industry may be due to the fact that the basic aim of microfinance institutions is eradication of poverty. Most of the products they have been offering from inception are services to the poor. In order words, no matter the turbulent environment, the mandate of these institutions remains offering services to eradicate poverty. This is one of the limited studies carried out in microfinance institutions which contribute to the literatures in MFIs. The practical contribution lies in the fact that top managers and managing directors in improving their performance by offering products which will attract more customers.

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