DEVELOPMENT OF BUSINESS STRATEGIES OF SELECTED FIRMS IN THE MICRO FINANCE SECTOR IN KENYA

BY

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DECLARATION

This project is my original work and has never been presented for a degree in any other university.

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D61/P/8028/2004

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DEDICATION

To my children Ava and Aidan, and my niece Reid anything is possible if you believe.

In memory of my Sister Grace Mkenda, we miss you terribly.

ACKNOWLEDGEMENTS

God is good all the time and all the time God is good and that is his nature. Thanks to the Almighty for granting me his mercies and for providing me with the fortitude and the tenacity to complete this project. My gratitude also extends to my mother Roxanne N. D Mkenda, my sisters Ida and Christina Mkenda and my niece Reid Karani who consistently challenged me to complete this process. Thanks also to Monica Jera Olwith who tirelessly took care of the home front to facilitate this process and my beloved children Ava and Aidan for permitting me to sacrifice time from them to finish this last leg.

I take immense pleasure in expressing my sincere appreciation and gratitude to my supervisor Dr. Awino for his invaluable guidance, patience, constructive criticism encouragement and for always being available without which this project would have not have been a reality. Special thanks to my respondents and interviewees your enthusiasm and stimulating discussions that culminated into this report. I hope the findings of this study will prove insightful into your discussions around the development of business strategies in your respective firms.

Last but not least, my gratitude to my friends and colleagues, who challenged me the most on my very last lap and kept my spirits up , consistently reminding me to keep my eyes on the prize. Betty Syanda you deserve a special mention thank you for believing in me.

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ABBREVIATIONS AND ACRONYMS

ASCAs	-	Accumulating Savings and Credit Associations
AMFI	-	Association of Micro Finance Institutions
CBK	-	Central Bank of Kenya
CBR	-	Central Bank Base Rate
CRB	-	Credit Reference Bureau
DTM	-	Deposit Taking Microfinance
FOSA	-	Front Office Services
GDP	-	Gross Domestic Product
FHI	-	Food for the Hungry International
KADET	-	Kenya Agency for the Development of Enterprise and Technology
KCB	-	Kenya Commercial Bank
KWFT	-	Kenya Womens' Finance Trust
MFIs	-	Micro Finance Institutions
MIS	-	Management Information Systems
MSMEs	-	Micro Small and Medium Enterprises
ROSCAs	-	Rotating Savings and Credit Associations
SACCOs	-	Savings and Credit Co-operative Societies
SBUs	-	Small Business Units
SMEP	-	Small and Micro Enterprise Programme
SPSS	-	Statistical Package for Social Science.

ABSTRACT

The purpose of the study was to identify the factors that affect the development of business strategies for select organisations in the microfinance sector in Kenya. The criteria used to select the organisations was determined by the origins of the institutions (purpose for which the institution was established), the current status of the institution and the organizational structure. The study sought to determine the following objectives: identify the factors that each individual organization identified as critical and affect the process of developing their individual strategies for entry and operations into the industry and shall examine some the challenges faced by all five institutions at inception; examine the factors that each individual institution takes into consideration to review the original strategy to suit the changing environment; and also reviewed some of the factors that the institutions regarded as critical in a bid to create and maintain a competitive advantage in a dynamic operating environment. Qualitative data was assessed in each of the contexts envisioned to exhaustively address the issues raised. Primary data was obtained using the personal interview method with key management within the five organizations and supplemented with secondary data from relevant publications. Analysis of the study was done using the factor analysis method and a report generated using SPSS software. The findings of the study indicate that the most prevalent factors that affect the development of the business strategies are cost of funds, geo political influences, value chain offerings, technological evolutions and exclusivity of the technologies for monitoring and evaluation purposes, level of literacy of the clientele, human resource and level of expertise. The institutions assessed the values of the factors named in differing magnitudes but these are the factors that stood out to be most the important and the ones that affect the development of business strategies.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There are a number of arguments advanced by various studies on the value of business development strategies and whether the process actually helps identify the factors that may lead to the success of and/or failure of a firm in the industry that it chooses to operate. Kay, (1995) states that businesses have had strategies since the earliest days of commerce but it is only since the 1960s that businesses have explicitly addressed the question of what their strategy should be. Advances in technology should have made it easier to determine factors that may influence the development of business strategy, however in these uncertain times with ever changing dynamics in the macro and micro environment it is not possible to adequately predict these factors and therefore develop a business strategy that will tide the business in the medium to long term.

Grantham & Carr, (2002) argue that businesses striving for long term sustainability will need to synchronize business cycles with the larger cycles of cultural change. If a business takes five years, and cultural cycles take 100 years, developing the ability to take the long view is critical. The statements allude to the ever evolving business operating environments and require that businesses evaluate these changes, review and adopt their strategies in short term cycles to take care of these eventualities while develop long term strategies that can accommodate these changes.

Grantham & Carr, (2002) further state that there are long waves of change such as the overall lifecycle of products as well as shorter waves of change like product enhancements. Businesses therefore need to operate within these intertwined cycles. An analysis of the competitive environment will form the foundation in which businesses develop strategies in order to ensure that the firms remain sustainable over the long term and adapt to changes in order to take advantage of opportunities brought about by these changes.

This study made comparisons of responses from one of the largest commercial banks in the country that runs the MFI function as a unit in the retail division in the larger organization, a deposit taking MFI which has diversified in its product offerings, an institution that converted from a purely MFI business into a fully fledged commercial bank, an institution that continues to be run largely as an NGO with specific focus in the rural areas, and a relatively new commercial microfinance which has been in existence for under 24 months.

1.1.1 Business Development Strategy

Stone house et al, (2004) surmise that the strategy of any organization will be shaped in part by its own capabilities and competences, and in part by its competitive environment. For a business to be successful, and to develop an effective strategy an assessment of its micro (competitive environment consisting its industry and markets) and the macro environment (consisting of forces at work in the general business environment).

Today's global competitive environment is complex, dynamic and largely unpredictable. Many firms are therefore putting a lot of effort into developing business strategies as a means of managing the future and effective strategy formulation is crucial as it directs the attention and action of an organization to adapt to the changing environment. Elkin, (1998) proposes that strategy is the process of how to best position the firm in its competitive environment in order to achieve and sustain competitive advantage and ultimately profitability.

Business development is conceptualized as or related to discrete projects, specific modes of growth, and organizational units, activities, and practices. In this perspective, business development refers to:"the tasks and processes concerning analytical preparation of potential growth opportunities, the support and monitoring of the implementation of growth opportunities, but does not include decisions on strategy and implementation of growth opportunities" (Sørensen, 2012, p. 26).

Bate & Johnston, (2003) argue that no corporate strategy lasts forever indicating that changes have to be made at some point to accommodate the dynamic environment, therefore in developing business strategies firms have to concede to the fact that the strategy will continue to evolve in order to meet the challenges of an evolving operating environment. Other researchers suggest a different approach with a focus functional strategy which has been criticized as being too one directional. A generic conclusion of these studies allocates the assessment of strategic management into four generic approaches, a goal centred approach, a comparative approach, a normative approach and an improvement approach.

1.1.2 Micro Finance Sector in Kenya

Banking in Kenya started in the colonial era with the British colonialists and a few Indian traders in the late 19^{th} Century. According to Wagacha & Ngugi, (1999) as quoted by Mukule, (2006) the first bank to start in Kenya was the National Bank of India, now called Kenya Commercial Bank in 1896 followed by the Standard Bank in 1910. Banking services continue to face challenges in trickling down to households in the lower niche of the market due to the prohibitive charges, a general lack of infrastructure in the rural areas, stringent account operating conditions to mention a few.

As a result the low income group commonly referred to by banks as the so called "unbanked" have remained so largely due to the perceived risks in this group the high low value volumes requiring a large workforce to administer the facilities and perceived lower profitability due to the high administrative costs involved. Omino, (2005) defines Microfinance as the provision of financial services to the low income households and micro and small enterprises (MSEs).

Omino, (2005) goes on to state that these enterprises provide enormous potential to support economic activities of the low income groups. Research has shown the importance of savings and credit facilities for the low income groups putting and emphasis on the sound development of microfinance firms as a vital ingredient for investment, employment and economic growth. In an effort to encourage the growth of the microfinance industry outside of the commercial banking sector, the government of Kenya in 2006 issued new regulations governing MFIs and further revised these articles in 2008.

The Microfinance Act of 2006 established new regulatory framework for aimed at enhancing good governance in deposit-taking MFIs. The framework imposes licensing and transparency requirements, deposit protections, dissolution mechanisms, corporate governance, performance, and accounting standards, and has provided for supervision by the Central Bank.

The 2008 revisions to the 2006 Act relaxed some of these requirements for smaller MFIs operating in limited geographic regions by dividing deposit-taking MFIs into two categories: "community microfinance firms" and "nationwide microfinance firms." MFIs operating on a community basis could apply to become nationwide MFIs, though nationwide MFIs are not able to convert to the community status, which has looser capital requirements. Only two firms Faulu Kenya DTM Limited and KWFT as at May 2012 were licensed as deposit-taking MFIs, though as of at the end of 2009, over 30 more firms had passed the first stage of approval.

Consequently there have been developments with respect to strategic changes in the microfinance sector whose firms commenced operations in Kenya in the early nineties. These firms were originally established as Non-governmental firms (NGO's) and their main mandate was to reduce the level of poverty in economically viable low income groups resulting in the high uptake of the services provided by these microfinance firms. Due to the sheer scale of the volumes there have been constraints as to the scope and reach of facilities as per the original mandate and thus these institutions were unable to achieve sufficient scale to reach the mass of the people leading to the increase commercialization of microfinance (Drake and Rhyne, 2002; Woller,2002).

Currently the microfinance industry in Kenya is in a state of flux. The non-governmental organizations (NGOs) that once dominated that industry are transforming into licensed banks and non-bank financial intermediaries. By shifting from their status as non-profit organizations to commercial enterprises, MFIs are evolving into organizations that have acquired complex business structures found in any traditional bank. To ensure that the small loan portfolio provides a good return for their shareholders, these firms have had to raise interest rates, and engage in aggressive marketing, loan collection and deposit mobilization.

1.1.3 Selected firms in the Microfinance Sector in Kenya

The research focused on five selected firms and will provide a brief back ground of each of the firms as follows: Kenya Commercial Bank's history dates back to 1896 when its predecessor, the National Bank of India opened the first outlet in Mombasa. Since then bank has grown into the largest bank in Kenya and recently scaled down its operations with the provision Micro finance services as a small business unit domiciled in the retail banking division.

Faulu Kenya DTM Limited was founded as a program run by a Christian relief and development organization Food for the Hungry International. FHI were cognizant of the unique needs of low income groups in the country and sought to provide finance to this group of people. In its sixteen years in existence Faulu Kenya has transformed from an NGO mainly supported by donor funding into a deposit taking MFI offering both savings and credit services to thousands of Kenyans.

Founded by World Vision in the year 2000, the Kenya Agency for the Development of Enterprise and Technology (KADET) was formed to economically empower low income groups. KADET has created a unique niche demonstrating that providing access to finance in rural areas using microfinance models can be a profitable and successful venture and continues to be funded by donors in its quest to alleviate poverty in the rural areas.

Jamii Bora can trace its beginnings to 22nd November 1999 when it was registered as a charitable organization having collected funds from 50 destitute families under the name Jamii Bora Trust. It has since grown to be the largest Microfinance institution and in March 2010 merged with City Finance Bank obtaining a banking license from the central Bank of Kenya, divesting into the provision of formal banking products.

Inuka Africa was founded in March 2011 as a commercial enterprise by a Director with previous experience working in the Women's World Bank and KWFT. The Director's vision was to provide access to finance to low income groups at a faster rate and customize services to ensure that those that had not been reached by the larger microfinance firms had access to finance.

1.2 Research Problem

Ice, (2007) states that strategic intent is the key to business strategy development and culture change. He further states that that the challenge lies in building a sustainable strategy for long term growth and that strategic intent will inform and shape how businesses define themselves and create unique strategic advantages, competencies and capabilities in order to effectively compete in the market.

Developing a business strategy can be affected by a number of issues including customers, the company in its current state, competitors, the operating environment, product offerings , suppliers and cost of its products to name a few. Hunt and Morgan, (1994) considered exchanges between an organization and its stakeholders as a two way exchange involving both giving and taking. Businesses therefore have to conduct a clear analysis of this exchange in order to determine the factors that may affect their business strategy development in order to operate effectively in their chosen markets.

The microfinance sector stands out as a private sector market based strategy to improve the lives of the poor. Causes of poverty have long been debated and much effort has been spent to ameliorate it. Estimates suggest that as much as $2.3 Trillion has been spent mostly in form of sponsored aid programs conceived and pursued by governments and large foundations in developed world (Barnett et al, 2007).

In its broadest sense micro credit includes provision of loans of small amounts, often $100 or less, to the poor and other borrowers that have been ignored by commercial banks. (Sengupta and Aubchon, 2006).The AMAR report (2009) indicates that the Kenyan financial sector is one of the broadest and most developed in Sub-Saharan Africa, with 45 financial firms and over 29 registered microfinance firms The report goes on to state that, approximately 2.3 million people (20% of the Kenya's employed populace) are engaged in the micro-finance sector.

As result the microfinance industry in Kenya has experienced rapid growth over the last 20 years. The demand for micro finance services in Kenya is high, yet the industry is only able to meet about 20% of this demand because of a lack of financial resources and the capacity to assess risk, process and monitor loans.

Wainaina, (2002) states, to achieve large scale outreach with a financial product designed for the very poor people, MFIs have combined globally with commercial organizations and SBUs (Small Business units) of large banks in order to raise funds for the MFIs. In his study, Wainaina, (2002) adds that with the evolution of the MFIs from NGOs, there was a need for emphasis to be placed on ensuring good governance practices were put in place to create room for regulatory framework within MFIs.

In her study, Goro, (2003) indicated that in response to substitute products large commercial banks in the market were reviewing their product offerings and were providing products that were competing on the same level with MFIs and other financial firms. The study indicated that an identification of the intra, inter and extra industry effects, and the extent to which they influence strategy formulation in financial institutions in Kenya would be an area of interest for further research.

Mwindi, (2002) studied the relationship between interest rates charged byMFIs and performance of micro and small enterprises in Nairobi stating that further research should be conducted factors that affect the performance of MFIs. Bett, (2005) stated that MFIs are pillars to the development and growth to the informal sector as they were able to mitigate asymmetric information and problems between lenders and borrowers hence increase access to financial services.

Barriers to growth and development confronting MFIs specifically in terms of finance, legal and regulatory constraints and establishing the consistence and coherence of funding strategies by MFIs, was suggested by (Ratemo, 2004) as an area that could be researched in future. Kar, (2011) quotes, Robinson (2001) and De Aghion and Murdoch, (2005) who propose that microfinance firms confront additional special challenges of meeting double bottom lines; increasing outreach with financial services and attaining financial sustainability.

The studies undertaken locally have addressed different issues and have identified a gap that this research intends to study; what factors affect the development of business strategies of the selected firms in the microfinance sector in Kenya?

1.3 Research Objectives

The objective of the study is as follows:

i. Identify the factors that affect the development of a business strategy of selected five firms in the microfinance sector

ii. Evaluate the strategies developed at inceptions, challenges faced, reviews and amendments over time.

1.4 Value of the Study

The findings of the study are relevant to microfinance firms that are seeking to enter into the microfinance industry in order to assess what key competencies and capabilities they may require in order to succeed in the industry, and the factors that may affect the kind of business strategy developed by the individual firms.

The study has added to the body of knowledge by identifying some of the factors that affect the development of business strategies within the microfinance sector in Kenya. The study has opened avenues for theoretical debates as to how developing a business strategy can facilitate the inception and sustainable growth of an organization and the need to evaluate the strategies developed to provide a review of the strategy to best fit changes that may occur in the operating environment.

Further the research is of importance to policy makers as it has provided an insight of the strategies developed by successful MFIs and assist in appropriate regulatory and legislative development to manage MFI firms. The study has last but not least allowed for an assessment of the quality and effectiveness of strategic business development in the sector and its influence of the success of the strategic implementation of distinct organizations in this very vibrant sector of financial services.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will cover literature as researched by various scholars related to the concept of the development of business strategies and the challenges faced by firms in developing these strategies, the theory of microfinance firms and some the factors that have affected the development of business strategies by the microfinance firms.

2.2 Development of Business Strategy

Firms face various challenges and as such the nature and type of challenges that a firm faces define the strategies and approaches that it adopts to ensure success and excellence. This argument is advanced by (Dawson, 2003) as well as (Cameron et al 2004). They further state that most firms' goals broadly range from happy and satisfied customers, good corporate citizenship and financial success as envisioned by their stakeholders. According to Cameron et al (2004), well managed change enables crafting of new business strategies, deployment of new technologies or systems, implementation of new business processes, mergers and acquisitions, organizational restructuring, or changes in compensation or benefit programs.

Many researchers and authors have various views on this concept, such as Paton et al, (2008), Kotter et al, (2002) as well as Sharma, (2007) maintain that organizational change management with regards to developing new business strategies involves various activities like communications, training, education programs, measurement systems and compensation programs that are used to manage change at an organizational level.

It is implemented as a deliberately structured process that begins with understanding the change and the organization or groups of organizations in that industry that will be affected, (Cook et al, 2004). There is a wide array of processes for managing change through the development of business strategies that have been advanced by various researchers and authors.

These include Kotter's eight steps that start with pushing urgency up then putting together a guiding team, creating the vision and strategies, effectively communicating the vision and strategies, removing barriers to action, accomplishing short term wins, pushing for wave after wave of change until the work is done and finally creating a new culture to make the new behavior stick. Others include Lewin's three step model that start with unfreezing previous behavior, changing and refreezing the new pattern and Kanter' ten commandments for executing change among other models as documented by (Kanter, Stein, and Jick, 2003), (Dawson, 2003) as well as (Kotter, 2003).

The underlying message in all the various ways, means and methods of achieving success in developing business strategies is that organizations and entire industries change because of inner conviction that it is the best thing to do, (Kotter et al, 2002). This is particularly true for large organizations that need to undergo cultural transformation, new technologies and restructuring. The mantra for success in developing business strategies, according to (Macaulay et al 2004), is the ability to overcome elements that are resistant to anything new and manage change in four phases starting with set up, kick off, delivery and review.

Firms that excel are therefore those in which individual firms know how to seize an opportunity when they sense it, avoid hazards and associate winning big with big leaps that come from embracing change in all its forms, (Kotter et al, 2002).

2.3 Micro Finance Theory

Microfinance firms MFIs serve as important providers of credit to economically viable low income groups and thus play a significant role in programs to alleviate poverty and promote economic opportunity in nations around the world, (Morduch 1999; Zohir and Martin 2004). These firms make loans to borrowers who seek relatively small amounts and who are viewed as too risky by larger conventional lenders. Quite often, MFIs operate with subsidies from charitable or governmental agencies. Caudill et al, (2009) suggest that there appears to be considerable heterogeneity in the microfinance industry in terms of the firms' size, sustainability and clientele service.

Given the shallow reach of traditional forms of banking, microfinance has played a central role in the evolution of Kenyan financial services. Four of Kenya's major commercial banks have roots in microfinance: two as building societies (Family Bank and Equity Bank), one as an NGO (K-REP), and another as a cooperative society (Co-operative Bank). These commercial banks and distinct financial institutions make up Kenya's microfinance industry. According to the Central Bank reports that 36 retail MFIs (excluding commercial banks) had registered with the Association of Micro Finance Firms (AMFI) had 1.44 million active deposit accounts/clients at their 825 branch offices as of December 2008, an increase of over 400,000 from the previous year.

Excluding commercial banks, the value of total deposits was 202 million USD, up from 151 million USD the previous year. These firms had 1.27 million active loan clients in aggregate at the end of 2008, an increase of over 30 percent from the previous year, and a total of 443 million USD in gross loan portfolio.Barnett et al, (2007) argue that the poor have always borrowed and saved and in most part of the world they can join a variety of informal rotating savings and credit associations.

At the same time commercial banks face significant obstacles to serving low income groups. This is the case especially in the developing world where legal systems for enforcing contracts are very weak, lack of collateral to support extension of finance implying significant risk and very high transaction costs. Barnett et al, (2007) goes on to state that to succeed microfinance must overcome these barriers while offering value not otherwise available through traditional savings and credit mechanisms.

Caudill et al, (2009) stated that in general it would be expected that a firm's operating performance should improve with time, however in MFIs this would be an understatement and oversimplification. For MFIs to offset the information asymmetries present, both lenders and the clientele have learnt this over time. While the situation is changing on the clientele side with the passage of time, improvements in the productivity of MFI itself are likely to occur, (Navajas et al, 2003 and Gonzalez-Vega at al,1996) when discussing Bolivia, describe the evolution of an MFI form an NGO to a for profit bank. In their studies they detail several advantages in the form of various types of capital passed from the bank.

Several possible advantages with the passage of time on MFI performance are pointed out by (Gonzalez – Vega et al, 1996): 1). The lending technology is proven and improved through several years of experimentation, development and adjustment; 2) The MFI accumulates a stock and information capital on clientele and the environment; 3) The MFI develops client relationships and identifies will performing clients; 4) The MFI accumulates the human capital embodies in experienced staff; 5) The MFI acquires a reputation as a serious organization capable of sustaining relationships with clients; and 6) the MFI has likely established connections with international networks and as a consequence enjoys technology transfers.

In recent microfinance years institutions are transforming more into commercial institutions from the traditional non- governmental organizations as it becomes more apparent that these institutions have to source their own funding. Drake and Rhyne, (2002) stated that commercialization is the new reality of microfinance institutions as they seek to diversify sources of funding and as established banks and finance companies take notice of the potential of microcredit to enhance their product mix and bottom line.

The main objective is of the paper was to examine the factors that affect the development of business strategies in the micro finance sector in Kenya. The findings of this paper will assist the finance sector to make sound and informed strategic management decisions and enable them to focus on developing products that can enhance the performance of their performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter was to define the research methodology used in getting the information and assisted the researcher address the question raised in the study. The chapter was used to discuss the research design, sample design, highlight the methods of data collections and subsequent analysis of the data.

3.2 Research Design

The study conducted a cross sectional survey of the selected firms using a guided interview process using a questionnaire that was developed for this purpose. The questionnaire used the Likert Scale that is commonly utilized to scale responses in research. The scale is named after its inventor, psychologist Rensis Likert and is described as collective responses to a set of items (usually eight or more), and the format of said responses are scored along a range

The study was conducted using descriptive research methods. Anderson & Arsenault (1998) define descriptive research as the process that sufficiently describes phenomena to allow for adequate understanding of the state of education in our world and facilitate the accumulation of knowledge.

3.3 Population

The population of microfinance firms in Kenya is numerous, however the selection was drawn from registered Microfinance Institutions (AMFI) whose current membership is 53 registered members.

One of the selected firms is however not registered in AMFI, but with the Central bank of Kenya as they are a fully fledged commercial bank. The sample formed about 7% of the microfinance institutions and about 5% of the population of commercial banks in Kenya of which micro finance institutions are governed by the CBK microfinance act of 2006 and the latter by the Banking act. The data was collected from the four of the five institutions stated herein: KCB bank Limited, Faulu Kenya Limited KADET, Jamii Bora Bank Limited and Inuka Africa Limited

3.4 Sample Design

The study was designed from purposive sampling of five selected firms as obtained from the population of firms in the microfinance sector and the banking sector in Kenya who have chosen to have microfinance as strategic business units within the greater organization.

The study focused on the five chosen institutions as a result of the different ways each of the organizations approached the microfinance sector .The main reason for this choice was that these firms exhibited different strategies that they have used in developing their products and in use in each respective operations. Furthermore, the focus of the research was basically in the micro finance institutions.

3.5 Data Collection

Data was obtained from chosen informants within the four out of the five firms who are the key managers and decision makers in the development of the individual business strategies within the organization. The researcher developed an interview guide in form of a questionnaire which was used in the process of personal interviews with the informants.

The researcher had face to face sessions with the interviewees allowing for clarity where necessary and this provided a better understanding of the questions being asked. The primary data was supplemented by secondary data that was sourced from various publications of the five firms, Central Bank publications and reports, AMFI publications and reports as well as other relevant industry publications.

3.6 Data Analysis

Analysis of data was conducted using the factor analysis methodology. Gorsuch, (1984) proposes that factor analysis is simply a logical extension of methods people have always used to understand their world. Factor analysis is a generic term for a somewhat vaguely delimited set of techniques for data processing, mainly applicable to the social and biological sciences.

These techniques have been developed for the analysis of mutual relationships among a number of measurements made on a number of measurable entities. The presentation of the findings will be in qualitative forms. Data will be analysed based on the interpretation of the responses from the questionnaires and implications as per the informants' accounts from the interview process.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains research findings, analysis and presentation of data obtained from interviews and other secondary sources. The data is summarized and presented as a feedback report from the informants supported by documented secondary data and statistics. The opinions of informants were obtained through personal interview, using a questionnaire based on the Likert scale method. The researcher used the questionnaire as a guide to measure the level of importance of certain factors to the respondents ranging from 1 (very high) to 5 (very low).

In addition the probing technique was employed in order to guide the respondents to provide the additional information that the questionnaire may not have covered so as to seek their opinion on what other factors may affect the different processes of strategy development. Five individuals were identified and used in the interview process and the selection was based on the notion that these are the key decision makers who have participated in the process of the development of the strategic direction that the institution chose and employed.

Of the 5 respondents identified for the study 4 respondents were able to participate in the study. The response rate was therefore 80% and non response rate 20%. The respondents were selected based on their senior position in the company and access to information on strategic decisions. All in all, the response rate was considered good and the data collected was considered reliable.

4.2 Kenyan Economic Profile

The social and economic policy reforms that the government has been implementing were largely informed by the Economic Recovery Strategy for Wealth and Employment created (ERS) 2003-2007, unveiled by the NARC government. In line with these reforms there are the Millennium Development Goals (MDGs) which Kenya as a country would like to achieve by the year 2030 and these include the alleviation of poverty and growing the middle income groups in order to grow the economy significantly so as to be dubbed a developed nation.

To this end a task force by headed by Mugo Kibati has been lobbying the government to implement policies to facilitate the achievement of these goals under the auspices of the Kenya Vision 2030. Vision 2030 provides the overall policy framework that should lead Kenya to attain the status of an industrialized nation by 2030. The economy was envisaged to grow at about 10% per annum and had been doing so since the NARC Government taking over following their successful bid at elections in 2002 ending 24 years of single party reign. For the next five years the economy was robust with many sectors of the economy performing better than they had over the previous decade.

However the global economic crisis and financial meltdown of 2008 coupled with post election violence following the disputed elections held in 2007 caused the economy to contract severely leading to growth rates of about 1.1% in 2008. The drought of 2009 served to make the situation worse and a return to normalcy has been difficult given circumstances. The figure below illustrates the GDP growth over the past five years.

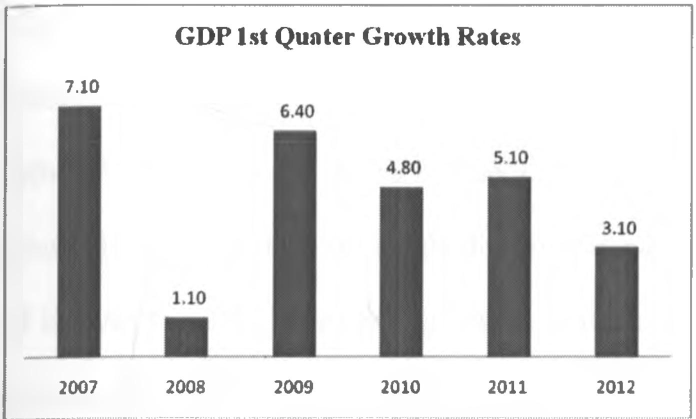


Figure 4.1, GDP 1st Quarter Growth Rates 2007-2012
Source: http://www.knbs.or.ke/total_imports.php

Kenya is fast transforming to a developing country status from least developed country according to ratings by the United Nations. The population stands at about 39.8 million according to the census undertaken in 2009 with a growth rate of 2.6% per annum. Over 10 million of the populace work in the informal sector and the MSME sector in Kenya as in many emerging economies is critical for industrialization, creation of employment resulting in poverty reduction and wealth creation.

The informal sector is propelled by needs in the society and innovatively responds to them by creating relevant products and services. The sector has been a catalyst in improving social and economic conditions for individuals as well as for society. The major challenge to the growth of the MSME sector is the lack of access to relevant, affordable and stable financial solutions. Kenya's Vision 2030 sees this sector as one of the engines to propel economic development and help the country attain middle income status by 2030.

The Kenyan economy remains resilient despite the slowdown in economic growth from 5.1% in 2011 to 3.1% in 2012 during the Quarter one period. Overall average inflation declined from 16.4% in May of 2012 to 16.0% in June 2012 and remains relatively high based on the single digit inflationary target as set by the Central bank of Kenya. The MPC remains vigilant in trying to ensure that the inflationary figure reduces to single digit as it has a direct implication on the CBR rate and consequently that of borrowing rates as extended by banks and MFIs.

Kenya largely remains an import driven economy with a huge trade deficits due to importation of crude oil and related products as our largest import bill. However Oil discoveries in Turkana county, potential gas reserves off the coast of Kenya, and the mining potential of coal in Kitui would change reverse this position. As such Kenya would be a net exporter of these commodities and this will herald a new economic dispensation. In addition to this Kenya is a host to several multinational companies who have made this a service hub with Business Processing Centres and head offices which should further boost the economy by increasing the work force and subsequently the middle income groups.

The Energy sector will also play a vital role in re-energizing the economy, we are currently exploring the possibility of generating cheaper electricity with the use of geothermal power. This is a cheap source of renewable energy which will make the country an attractive destination for the manufacturing sector. Coupled with less bureaucracy in terms of setting up a company, progress in this area will increase the number of companies that can set up shop in the country with potential for Kenyans to set up value add companies for our exports and thereby increasing the workforce and the demand for financial services to spur this growth.

The Kenyan economic profile will undergo significant changes following the 2013 elections. The resultant effect will be the operationalization of self governance of the 47 counties as envisioned in the 2010 constitution. This particular change will have far reaching consequences as government spending will originate from the counties and institutions that do not have reach in all the counties may be at a disadvantage due to the migration in search of opportunities at the county level by the populace as was envisioned when devolving government operations. The chart below maps the boundaries as per the constitutional reforms of 2010.

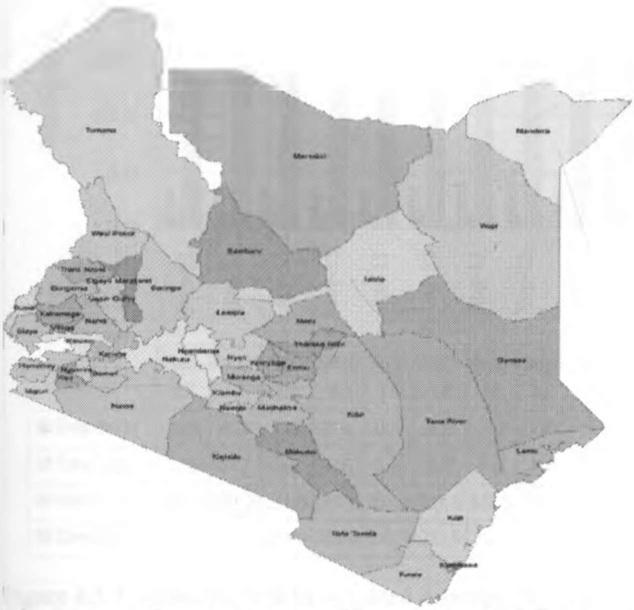
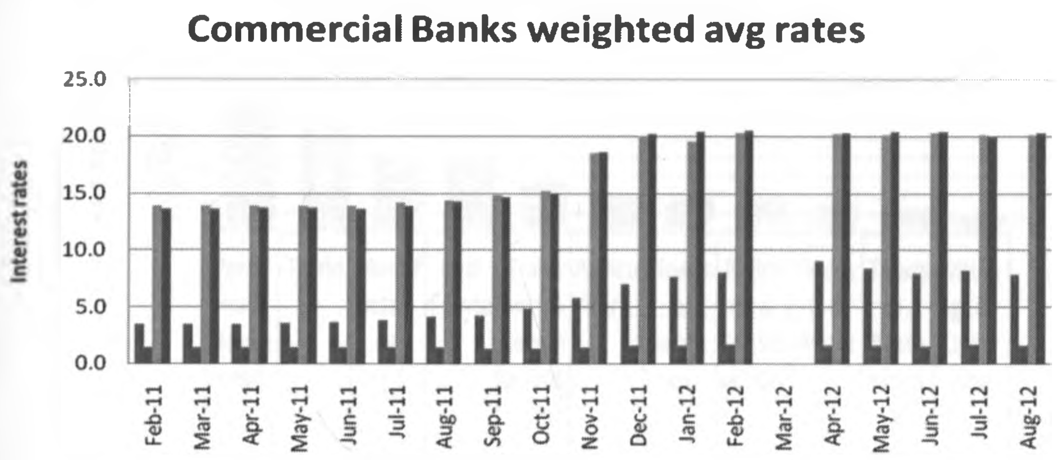


Figure 4.2: County boundaries under the new Kenyan constitution
Source:http://commons.wikimedia.org/wiki/File:Map_showing_Counties_underthe_new_kenyan_constitution.gif

4.3 Developments in the Kenyan Banking sector

The sector as at the end of the quarter of June 2012 constituted Central Bank of Kenya as the regulator, 43 Commercial banks, 1 mortgage finance company 6 deposit taking MFIs , 5 representative offices of foreign banks, 118 foreign exchange bureaus and 2 credit reference bureaus.

The asset size stood at KES 2.2 Trillion, with loans and advances worth KES 1.3 trillion while the deposit base was KES 1.7 trillion and profit before tax of 53.6 Billion as at 30th June 2012. It is worth noting the financial sector is developing and deepening faster that the overall economy growing at 9.0% in 2010 and 7.8% in 2011 respectively. The chart below illustrates the interest rates on a weighted average basis for commercial banks.

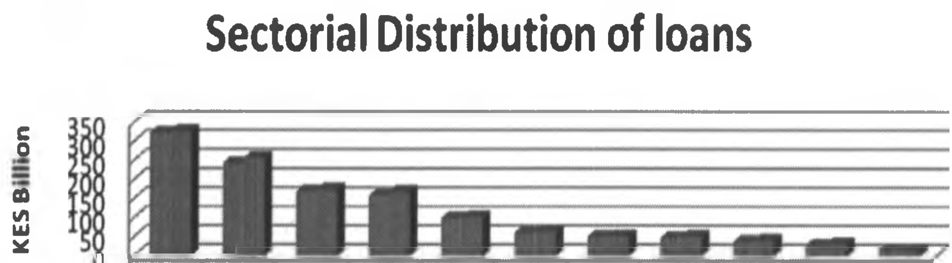


	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Deposit	7.9	8.3	7.9	8.4	9.0	8.0	7.7	7.0	5.7	4.8	4.2	4.1	3.9	3.7	3.5	3.5	3.5	3.4
Savings	1.6	1.7	1.5	1.6	1.6	1.7	1.6	1.6	1.4	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Lending	20.1	20.2	20.3	20.1	20.2	20.3	19.5	20.0	18.5	15.2	14.8	14.3	14.1	13.9	13.9	13.9	13.9	13.9
Overdraft	20.3	20.0	20.4	20.4	20.3	20.5	20.4	20.2	18.7	14.9	14.6	14.3	13.9	13.6	13.7	13.7	13.6	13.7

Figure 4.3. Commercial Banks weighted Average Rates of Interest
Source:http://www.centralbank.go.ke/index.php/interest-rates/commercial-banks-weighted-av?yr=2011

The banking sector has experienced some turmoil with an increase in non-performing loans from KES 53.7 Billion in March of 2012 to as a result of the increase in base lending rates within a period of a year from a base rate of about 14% on average an all time high in recent times of 24%. This has caused levels of borrowing to contract and causing a ripple effect in the market reducing economic activity. The above coupled with the volatility of the KES against all major currencies as at the end of 2011 led to an intervention by the MPC of the Central bank which has successfully stabilized the exchange rate and are working at reducing the interest rates to a manageable level.

Subsequently the MPC gazetted announcement in reduction of the CBR rate that currently stands at 13.0% down from 16.5% in September. It is anticipated that the rate will either remain at this rate or reduce further during the month of November when the MPC meets again. The chart below shows borrowings per sectors of the economy



	Personal/ Household	Trade	Manufacturing	Real Estate	Transport & Communication	Agriculture	Financial Services	Building & Construction	Energy & Water	Tourism, Restaurant & Hotels	Mining & Quarrying
Mar-12	321.8	242.7	169.1	158.5	99.6	60.7	51	48	38.5	29.2	16.6
Jun-12	326.8	257.1	174.8	168.6	102.8	64.7	51.7	51.9	42.3	32.5	16.1

Figure 4.4: Sectorial Distribution of loans
Source: http://www.centralbank.go.ke/index.php/2nd quarter 2012/ banking sector performance/development/php

The banking sector is expected to sustain its growth momentum at the same levels as a result of declining inflation, reduction in interest rates and a stable exchange rate which should spur economic activities in 2012. As we go into 2013 the sector is anticipated to remain stable despite the impending elections in March. The central bank is also conducting a comprehensive review of the legal and regulatory framework and has released revised prudential and risk management guidelines to ensure stability and integrity in the sector given the growth plans of several banks and microfinance institutions within the East African region.

Stress tests conducted by the Central bank indicated that the sector remains sound the financial sector and the growth in the sector has been driven by enhanced financial infrastructure that has enabled financial inclusion. Such infrastructure includes agency banking and the exponential growth of mobile money solutions from all the telecommunications companies. The growth of the micro deposits accounts (accounts with average balances of KES 100,000 and below) has been a critical contributor to the development and deepening of the banking sector. These accounts have increased from about 2.14 million to 14.4 Million in June 2012.

The number of loan accounts remains low at just over 2 Million and will need to increase substantially to catalyse reduced unit costs of loans. In this regard, the central bank will continue to work with Government and the banking sector to implement reforms geared towards reducing the cost of credit in order to increase the number of Kenyans able to access credit. The credit information sharing mechanism that was launched in July 2010 continues to be used by both commercial banks and individuals and reports requested by institutions stood at 1,774,185 in June 2012 a 15% increase from March 2012.

This process has served to strengthen credit appraisal standards and will go a long way in ensuring that borrowers remain disciplined and honour their obligations. As at 30th June 2012 there were 10 commercial banks that had contracted 12,054 active agents facilitating over 18.7 million transactions valued at KES 93.1 billion. There was also a significant increase in the value of gross loans extended by DTMs at 17.9 billion a growth of 4.1% from March 2012. The deposit base stood at KES 12.3 billion with a growth of 22% over the same period.

4.4 Current Developments in the Micro Financial Sector in Kenya

The Kenyan microfinance sector is one of the most vibrant in Sub- Saharan Africa and includes a diversity of institutional forms and a fairly large branch network to serve the poor. The microfinance sector holds enormous potential to support economic activity by providing support to micro small and medium enterprises (MSMEs) however it is not as highly regulated as the banking sector and remains as such. Only Deposit taking microfinance institutions are regulated by Central bank as they hold customer deposits and are subject to statutory capital adequacy requirements.

In order to increase capacity in terms of lending and market share a number of institutions have been were licensed into subject DTMs resulting in an increase in numbers of DTMs from 2 as at 2009 to 6 as at June 2012.Several fledgling institutions have arisen offering loans at a highly commercialized rate as a result of lack of regulation.

The CBK is reviewing this sector with a view to regulating the same so as not to cause instability in this important segment of the financial sector and ensure that operations are carried out with integrity with the correct risk management approaches so as to avoid a run on the institutions and failure of the segment as a whole. CBK has limited regulatory capacity for this sector and it is for this reason that they have decided to extend the prudential regulation as per banks to institutions that are large enough to endanger the stability of the overall financial sector

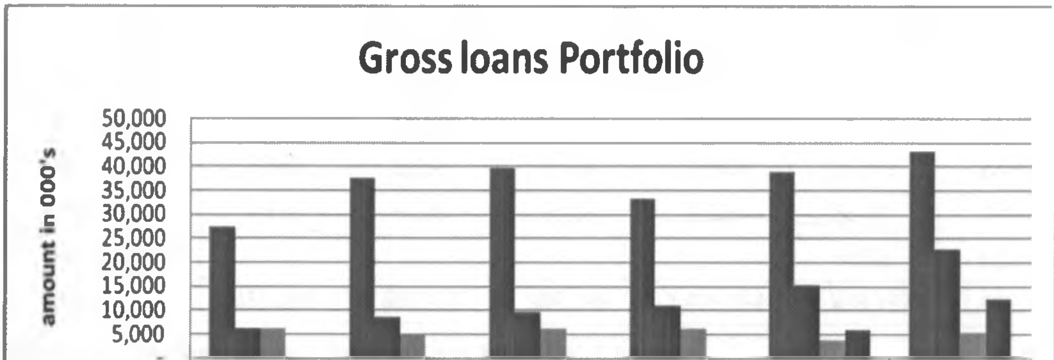
Registration of institutions operating in the microfinance industry takes various forms the table below gives an overview of the formal microfinance landscape and the regulations applying to each institutional form. This is landscape is as a result of laws that have been enacted to allow SACCOs and MFIs to take on deposits. It should be noted that there informal microfinance operators can take the form of money lenders, Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs).

Table 4.1: Microfinance Regulatory Framework in Kenya December (2010)

Institution	Number	Legal Basis for Regulation	Supervisory Authority
Deposit Taking Microfinance Institutions (DTM)	3*	Microfinance Act	CBK
Credit only MFIs	200 in October 2010 (Economist intelligence Unit 10/2010)	Discussions on-going between CBK and various industry Stakeholders to develop regulations in line with international best practices	Registrar of Companies, NGO Council, various based on form of registration
Bank	6 (with a specialized focus on Micro finance) and 6 with a microfinance department as at 2010	Banking Act	CBK
Savings and Credit Co-operatives (SACCOs)	Over 500, of which nearly 230 offered front office services in October 2010 (Economist Intelligence Unit 10/2010)	SACCOs Societies Act, 2008. This act applies to only an estimated number of 230 SACCOS with Front Office Services (FOSA)	SACCOs Societies Regulatory Authority (SASRA) Non- FOSA SACCOs supervised by Ministry of Co-operative Development and Marketing

Source: FSD Report Feb2012 Transforming Microfinance in Kenya The experience of Faulu Kenya and Kenya Women Finance Trust as quoted from Microfinance information exchange

The figures below illustrate the tremendous growth of the segment and is an indication that a large part of the market still remains untapped consequently there is huge potential for institutions to increase their market share and penetration.

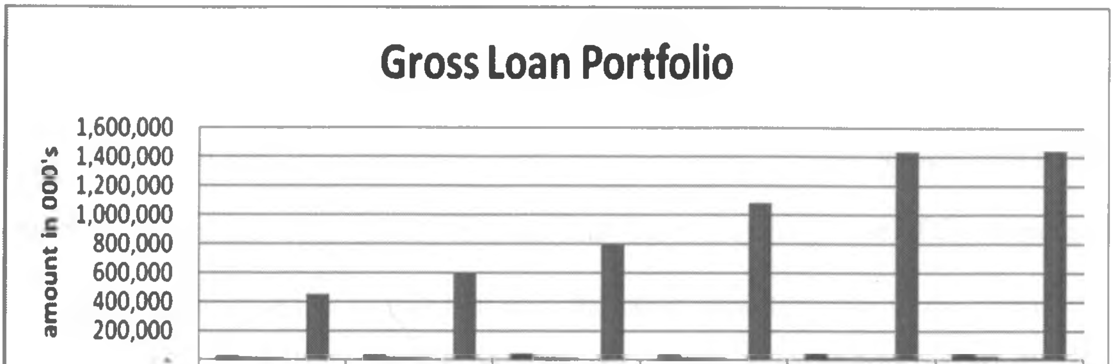


	2007	2008	2009	2010	2011	2012
Faulu Kenya	27,407	37,630	39,643	33,175	38,946	43,290
Jamii Bora	6,080	8,553	9,568	10,908	15,271	22,907
KADET	6,178	5,135	6,288	6,325	3,745	5,490
Inuka Africa	-	-	-	-	6,038	12,320

Figure 4.5. Gross loans portifolios of Select MFIs
Source: http://www.mixmarket.org/profiles-reports/crossmarket-analysis-Report?fields=balance_sheet.gross_loan_portfolio&filter_country=Kenya&form_id=crossmarket_analysis_report_top_form&date_select=all&quarterly=ANN

The graph above illustrates a comparison of the performance in turnover of four of the five of the institutions in the study so as to get a clearer picture of performance at the level of loans below 100 million shillings and indicates steady grown in the loan books which is a reflection of the capacity available to extend loans in this sector.

Access to credit remains a distant goal to majority of Kenyans. Kenya's national Finaccess Survey 2009 revealed that 60.4% of Kenya's adult population is totally excluded from the credit market. This however a slight improvement from the 63.4% figure recorded in 2006. Studies indicated that the male population has better access to loans from the formal sector leaving the female population to seek alternative access using MFIs.



	2007	2008	2009	2010	2011	2012
Faulu Kenya	27,407	37,630	39,643	33,175	38,946	43,290
Jamii Bora	6,080	8,553	9,568	10,908	15,271	22,907
KADET	6,178	5,135	6,288	6,325	3,745	5,490
Inuka Africa	-	-	-	-	6,038	12,320
KCB	455,230	606,973	809,298	1,079,064	1,438,752	1,446,978

Figure 4.6 Gross loan portfolio Select MFIs & KCB Bank Limited
Source: http://www.mixmarket.org/profiles-reports/crossmarket-analysis-Report?fields=balance_sheet.gross_loan_portfolio&filter_country=Kenya&form_id=crossmarket_analysis_report_top_form&date_select=all&quarterly=ANN

The figure above illustrates the huge difference capacity can create with respect to turnovers, a clear indication that a large branch network, age in the market and having agency arrangements, translates directly in large turnovers and subsequently higher profit margins to take advantage of economies of scale.

Other developments in the industry include partnerships with mobile telephone companies to take advantage of their platforms to disburse loans, promotions with customers to boost deposit mobilization, raising capital and equity using the capital markets through issuance of bonds and rights issues and technological innovations including solutions by commercial bank software companies offering software solutions and operational platforms that can be accessed through cloud technology. This new development will provide MIS systems to the small MFIS without the additional burden of having a large human resource compliment in the operational department.

4.5 Data Analysis and Interpretation of results

This section will deal with the results from the interviews with the respondents based on the questionnaire. The results reflected below are an average rate of the responses and sought to analyse the factors that play the most important role in the process of developing the business strategies as each stage; inception, periodic review on assessment of the operating environment and challenges presented and finally as a guide to the future operations with a view to creating competitive advantage. The importance of the factors ranged from 1 (very high) to 5 (very low).

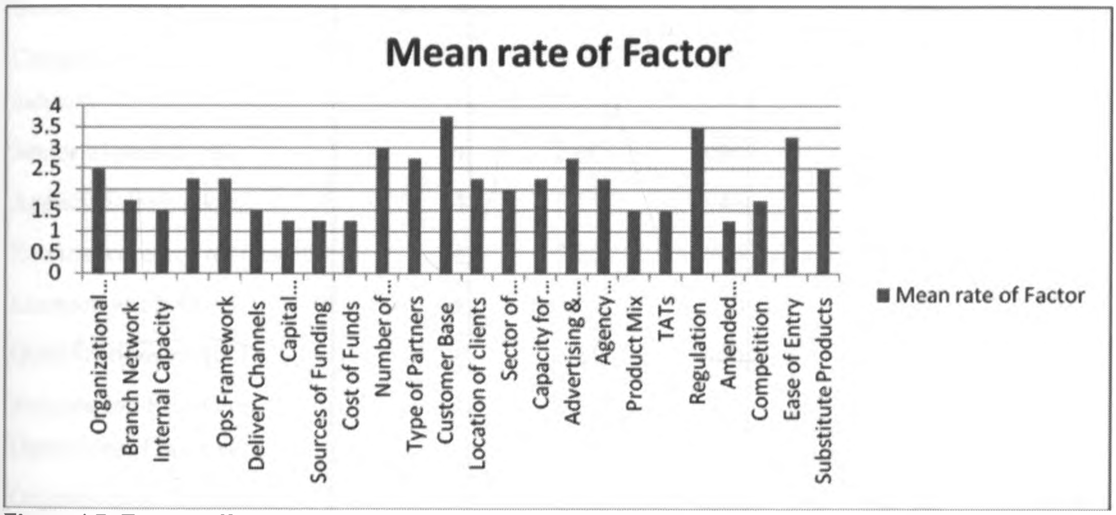


Figure 4.7: Factors affecting development of Business Strategies

Respondents had the same view regarding the customer base, regulation and ease of entry stating that this had a very low impact when developing their strategies. This is due to the fact that the market is very large given that financial inclusion of the populace is at about 30%, with most of the population being in the urban areas and rural penertration of financial services still remaining a challenge due to infrustructure issues.

Table 4.2: Descriptive Statistics of factors affecting development of business strategies

Variables	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Proposed changes in regulation	4	1.25	.250	.500	.250
Capital Requirements	4	1.25	.250	.500	.250
Sources of Funding	4	1.25	.250	.500	.250
Cost of Funds	4	1.25	.250	.500	.250
Internal Capacity	4	1.50	.500	1.000	1.000
TATs	4	1.50	.500	1.000	1.000
Product Mix	4	1.50	.500	1.000	1.000
Delivery Channels	4	1.50	.500	1.000	1.000
Branch Network	4	1.75	.750	1.500	2.250
Competition within the industry	4	1.75	.479	.957	.917
Sector of operations	4	2.00	.000	.000	.000
Agency Sales/banking	4	2.25	.946	1.893	3.583
External capacity for Growth	4	2.25	.946	1.893	3.583
Location of clients	4	2.25	.250	.500	.250
Qualifications of Staff	4	2.25	.750	1.500	2.250
Policies and Procedures Operational Framework	4	2.25	.750	1.500	2.250
Organizational Structure	4	2.50	.957	1.915	3.667
Substitute Products	4	2.50	.866	1.732	3.000
Advertising and Marketing campaigns	4	2.75	.854	1.708	2.917
Type of Partners	4	2.75	1.031	2.062	4.250
Number of Partners	4	3.00	.913	1.826	3.333
Ease of Entry into the sector	4	3.25	1.031	2.062	4.250
Regulation	4	3.50	.645	1.291	1.667
Customer Base	4	3.75	.750	1.500	2.250

Some of the factors that had an average rating include the number of partners, substitute products, organizational development, marketing and advertisement due to the fact that a number of organizations did not have the need for partners as they were at their inceptions stages or had been in the market for a while, a number of the respondents felt that there was enough room to market to the exisiting population without the threat of substititute products as products in this segment were generic.

Other respondents noted that although organizationl structure was important it did not factor in their strategic process as these were already in place at the inception of the institution, finally most institutions did not have a budget to actively market their products with the exception of one the institutions and therefore this situation averaged out this particular factor. The most important factors that all respondents had a consensus on were the following branch network, internal capacity with respect to human resource for the sales function and MIS systems, delivery channels of the products, adequacy of funding both equity and other sources of capital including deposit mobilization , product mix, turn around times and changes in legislation.

The respondents' view were that these factors were critical in the development of the business strategy as they directly related to the performance of the organization. As has been stated before regulation for the industry is limited to the deposit taking MFIs therefore greenfield MFIs are not subject to the stringent prudential guidelines, however any changes in the guidelines would have a serious effect on non deposit taking MFIs as they would now be forced to comply with said regulations and their profit margins would decrease significantly. Subsequently a review of the strategy would be inevitable.

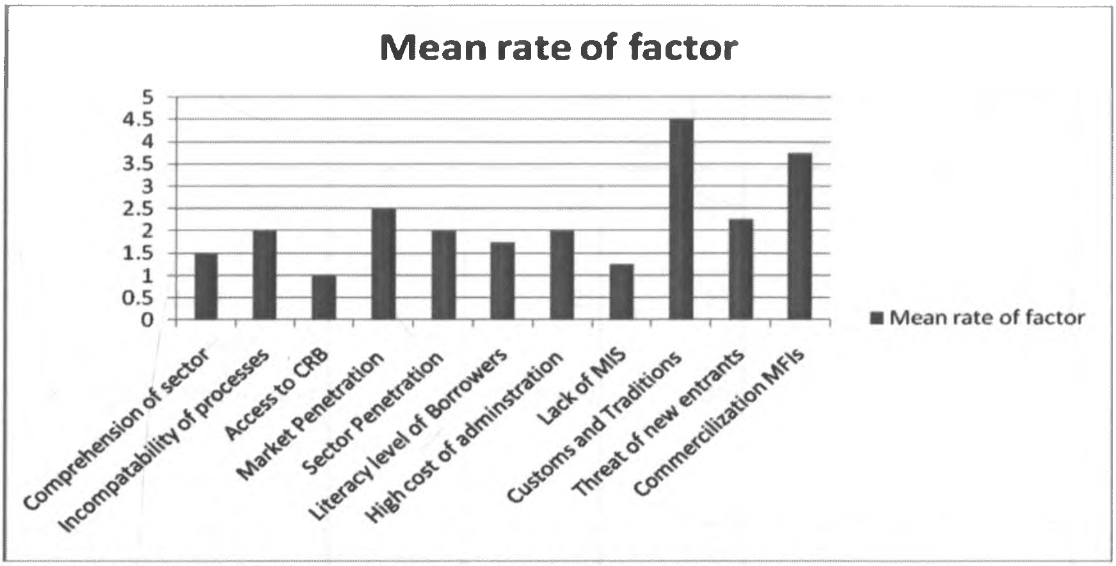


Figure 4.8: Challenging Factors in the process of developing business strategies

Respondents stated that customs and traditions in the rural areas did not factor as a challenge when considering factors that affected the development of busniess strategies. Respodents advised that they were in the MFI sector to make a profit therefore commercialization did not factor as a challenge despite the fact that two of the instituions orignated from the NGO world and morphed into commerical insitutions.

Challenges that faced commercial banks that had MFI units operating within the larger organisation included a lack of understanding of th sector due to its unique operational needs. Additionally the MIS systems of the larger organization proved to be incompatible with the MIS systems for the MFI unit as products across the banking industry are standardized to meet certain generic requriements. However the MFI unit has unique requirements due to the sheer volume of the transactions their nature and repayment periods . These range from weekly repayments to bi weekly repayments unlike conventional loans which are paid on a monthly basis with interest paid on an accural basis.

Table 4.3: Descriptive Statistics of challenging factors that affect strategy development

Variables	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Lack of access to credit history of borrowers	4	1.00	.000	.000	.000
Lack of structured and standardized MIS systems	4	1.25	.250	.500	.250
Organizational understanding of microfinance sector and functions of the unit	4	1.50	.500	1.000	1.000
Literacy level of Borrowers	4	1.75	.750	1.500	2.250
Incompatibility of processes	4	2.00	.707	1.414	2.000
Sector Penetration	4	2.00	.577	1.155	1.333
High cost of administration	4	2.00	.408	.816	.667
Threat of new entrants	4	2.25	.750	1.500	2.250
Market Penetration	4	2.50	.866	1.732	3.000
Commercialization of Microfinance	4	3.75	.946	1.893	3.583
Customs and Traditions in rural areas	4	4.50	.289	.577	.333

Respondents stated that some of the key challenges currently facing them were access to Credit reference bureaus for borrowers that had previously defaulted and the lack of a framework for their data base to manage the information. Other data however suggest that some MFIs would not be willing to share information on a credit bureau platform as trade secrets would be shared out and therefore eating into their market share. Literacy level of borrowers was also a challenge as because the respondents felt it was necessary to manage how the borrowers used the funds to the extent that some of the MFIs run financial literacy workshops for their members.

The threat of new entrants specifically commercial banks who have larger branch networks and larger capital bases was also key as these institutions do not have the challenge of raising working captial and had no challenges with access to the markets.

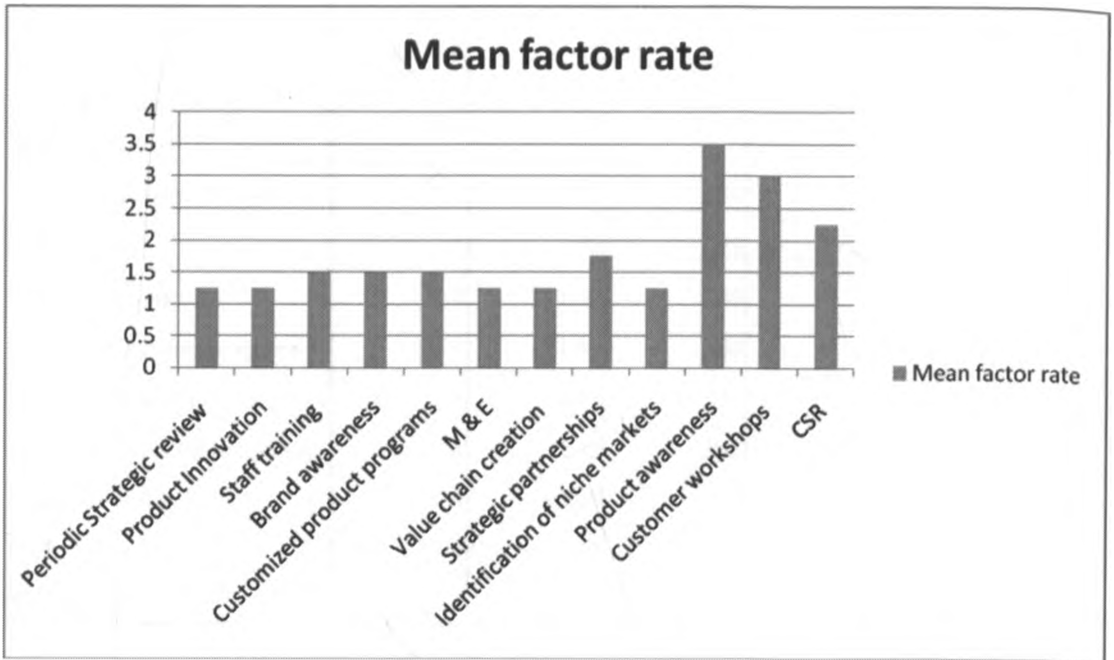


Figure 4.9: Factors that affect competitive advantages

Respondents agreed that periodic strategic review, product innovation, monitoring and evaluation, value chain propositions and identification of niche markets was key in developing strategies that would differentiate them from the competitors and create retention of their current customers base. Respondents stated that these key factors would faciltate the creation of each of their brands.

The factors they would least consider was product awareness as these were sold by their sales force and word of mouth from their customer base and corporate social responsibility due to the fact that most insitutions did not have a large budget or had no budget at all for activities around corporate social responsibility possibly due to the fact that one of the organizations was purely commerical and the others had separate organs of the organizations running as foundations to cater for this function.

Table 4.4: Descriptive Statistics of factors that affect competitive advantage

Variables	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Periodic Strategic review	4	1.25	.250	.500	.250
Product Innovation	4	1.25	.250	.500	.250
M & E	4	1.25	.250	.500	.250
Creation of value chains in product offerings	4	1.25	.250	.500	.250
Identification of niche markets	4	1.25	.250	.500	.250
Staff training	4	1.50	.289	.577	.333
Brand awareness	4	1.50	.289	.577	.333
Customized product programs	4	1.50	.500	1.000	1.000
Strategic partnerships	4	1.75	.750	1.500	2.250
Corporate Social Responsibility	4	2.25	.946	1.893	3.583
Customer workshops	4	3.00	1.155	2.309	5.333
Product awareness	4	3.50	.645	1.291	1.667
Valid N (listwise)	4				

Respondents noted that although product awareness did not rank very high in the minds brand awareness was very important and was a key differentiator from competitors as their own respective brands were associated with key attributes and benefits that were passed on to their customers.

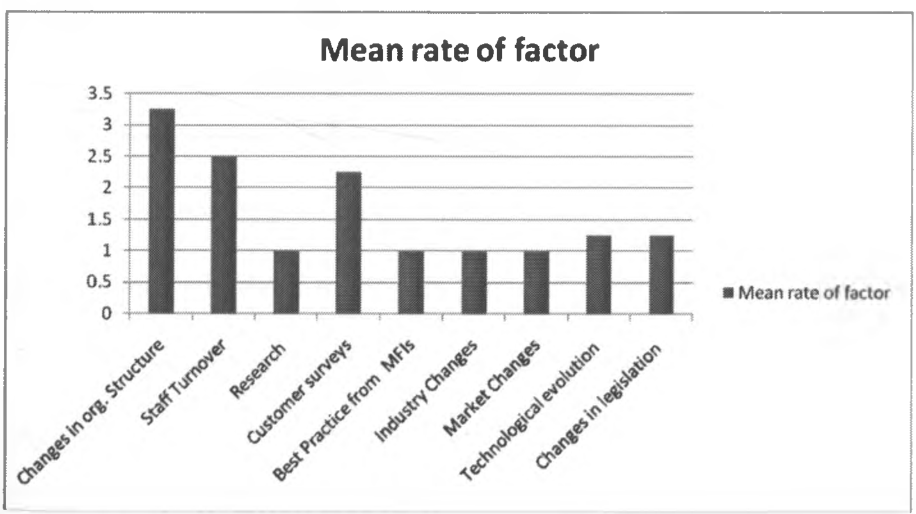


Figure 4.10: Factors affecting review of the original strategy

The respondents stated that the least important factors on review of the original strategy included changes in organizational structure, staff turnover and customer surveys as these scored average when in consideration at this stage of strategy development. However research, best practice from other MFIs, industry and market changes, techolgical evolution and changes in legislation ranked high in factors that the respondents would consider when reviewing the orignal strategy to incorporate these factors so as to ensure that their strategy remains in tandem with the dynamic enviroment.

Table 4. 5: Descriptive Statistics of factors affecting the review of the original strategy

Variables	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
Research	4	1.00	.000	.000	.000
Best Practice from other leading MFIs	4	1.00	.000	.000	.000
Industry Changes	4	1.00	.000	.000	.000
Market Changes	4	1.00	.000	.000	.000
Technological evolution	4	1.25	.250	.500	.250
Changes in legislation	4	1.25	.250	.500	.250
Customer surveys	4	2.25	.946	1.893	3.583
Staff Turnover	4	2.50	.289	.577	.333
Changes in organizational Structure	4	3.25	1.031	2.062	4.250

Respondents commented on the market changes stating that the high interest regime that has been witnessed in the past year discouraged the borrowers from accessing credit and actually reduced the rate of savings as these funds were used to offset the expensive loans that were in the market.

4.6 Discussion

MFIs provide a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank does not offer to low-income clients in the banking system. However, unlike in the traditional commercial banking sector, there is an understanding that the average microfinance client does not have many assets, thus collateral is usually sought in the form of social capital.

Under the World Bank millennial goals, microloans, and other financial services have been provided to 100 million poor people in the world by 2006. Further, MFIs have become distinguished by their impressive low level of default rates on the average and return on equity ranging from 20 to 40 percent. What is abundantly clear is that the commercialization as a strategy by microfinance institutions is a reality. Microfinance is becoming commercial for many reasons: First, microfinance is no longer the preserve of non-governmental organizations that are primarily driven by a social motive.

Many of the MFIs are either considering transformations or have already transformed into licensed banks, deposit taking microfinance institutions and non-bank financial intermediaries. Second, credit unions and credit and savings cooperative societies are reviving and re-engineering their operations so that they can better serve the growing microfinance industry. Third, the formal financial sector having reviewed the operating environment has taken notice of the potential of this sector given that the existing infrastructure covers only 20% of the market.

A number of commercial banks are therefore scaling down their operations and others are beginning to enhance their product mix accordingly. Fourth, central banks and finance ministries are seriously re-thinking the viability of microfinance for rescuing state owned savings, postal, development and/or agricultural banks. The bottom line is that microfinance institutions have over time developed strategies to develop a business and one that is able to survive and grow in a competitive industry.

All these institutions in the study regard microfinance as a viable business irrespective of whether or not they are socially oriented entities or profit making entities. Whereas it is noted that a number of quarters in the microfinance sector regard commercialization as a necessary step to provide high quality financial services to the poor, others feel that the introduction of a profit motive means that microfinance will no longer focus on their original mandate to provide financial access to the economically viable low income groups but will focus on the financial performance of the microfinance institution itself.

The factors identified in the study are reflective of the position that these institutions have taken with regards to addressing the issue of developing business strategies. Proposed changes in legislations, technological evolution (its availability, scalability and flexibility and cost implication), conversion of MFIs into deposit taking institutions, mobilization of deposits for purposes of growth and expansion all require that the microfinance institutions develop and periodically review their respective strategies in order to remain relevant in this sector especially in light of the large capital requirements to put in the requisite infrastructure to run operations.

The study also shows that the institutions take into account factors that will assist them in developing a strategy to gain a competitive edge over their rivals in the industry, whether it is through the development of value chains for their products, including the new profit share scheme that Jamii Bora unveiled on September 18th dubbed "Jiinue na Marafiki milele" or Faulu Kenya partnering with Airtel to advance payments via the mobile telephone platform. It is evident that the institutions want to ensure that their brand remains on the minds of the consumers for the value that they bring to the stakeholders.

Most of the institutions have developed strategic plans over a period of 5 years with very ambitious growth plans. These plans require funding and for the institutions to be able to attract capital they require to have some standard format of presentation of data to investors in the capital markets. KCB Kenya Limited has had three successful rights issues and hot on their heels to raise capital in this manner is Jamii Bora Bank Limited whose rights issue concludes in November and SMEP who also recently launched their rights issues to raise funds. Faulu Kenya Limited paid off a Bond that was sold on the capital markets last year.

It is imperative, that the strategies are developed for the business so that investors have a clear understanding of the direction of the institution to facilitate investing in the respective institution. As the stakeholders become savvier in the industry, institutions in the microfinance institutions have to survey the industry and the environment in a bid to develop strategies that best adapt to the changing environment and continuously review these strategies to remain relevant and sustain their current growth rate and profitability.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter sums up the findings of the study and details the researcher's recommendations for action arising from the findings. The respondents provided invaluable information which the researcher validated and complemented with the secondary data obtained from the various publications websites and other third party informants to summarize the findings of the study.

The study was limited by the time period allocated to collect and collate data as there was insufficient time to engage all the respondents on all the factors that listed resulting in of the information being derived from secondary sources. Additionally there was one respondent who was unavailable to provide responses to the questionnaire in person hence the use of the secondary data and third party information.

5.2 Summary

The four organizations provided important insight as to the factors affecting the development of business strategy at every stage of the process; key among these were capital adequacy (both in form of equity and deposits mobilized from customers), changes in legislation, geo politics the technological evolution and industry changes.

The study highlighted some of the short comings of the sector including the fact that CBK is yet to fully regulate this industry as this is a work in progress and the glaring fact that many of these institutions have more or less become commercially driven.

The study indicates and draws a conclusion that if the industry remains unregulated especially for MFIs that do not collect deposits, rogue MFIs might mushroom taking advantage of the consumer with high interest rates and they may also use customer deposits to fund their own activities creating an unstable financial environment and making it more difficult for the poor to access credit.

5.3 Limitations of the Study

There was limited access to current information on the microfinance sector in Kenya as most of the information was premium content on the internet with a very high cost attached to accessing the same. Additionally some of the respondents were not very co-operative as they felt that they were giving away trade secrets despite the fact that the questionnaire was very generic and did not point out to any specific quality that was attached to a particular institution.

The other limitation was that opinions represented in the study were essentially biased to the respondent in this case the senior manager or director based on their experiences in the market and their stake in the organisation whether as an owner and or employee and or consultant.

5.4 Recommendations for further research

The microfinance industry continues to evolve and with the changing environment, changes to legislation are inevitable if only to ensure adequate regulation of the sector and management of the risks associated with portfolios in the sector.

The researcher recommends that research be conducted on the effect of Islamic banking on the microfinance sector and changes in strategy that may be employed to take advantage of this niche market, the use or technological platform as opposed to a large branch network to create competitive advantage and last but not least strategies of raising capital to implement expansion of the particular organization in the microfinance sector.

5.5 Implications on policy, theory and practice

The findings of the study have been found to be relevant to microfinance firms that are seeking to enter into the microfinance industry as key factors that affect the process of the development of business strategies have been identified and can form a guideline of the key considerations that the institution would make at the different stages of growth of the business.

The study has added to the body of knowledge by identifying some of the factors that affect the development of business strategies within the microfinance sector in Kenya. The study has addressed the issues and considerations when developing a business strategy and can facilitate the inception and sustainable growth of an organization and the need to evaluate the strategies developed to provide a review of the strategy to best fit changes that may occur in the operating environment. The study has provided additional literature and figures to be used when considering issues in the microfinance sector.

Further the research will be of importance to policy makers as it has provided an insight of the strategies developed by successful MFIs addressed some of the challenges the MFIs are facing and can assist in appropriate regulatory and legislative development to manage these MFI firms across the industry.

The study will last but not least allow for an assessment of the quality and effectiveness of strategic business development in the sector and its influence of the success of the strategic implementation of distinct organizations in this very vibrant sector of financial services.

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Appendices

Appendix I. Questionnaire

QUESTIONNAIRE ON FACTORS THAT AFFECT THE DEVELOPMENT OF BUSINESS STRATEGIES IN THE MICRO FINANCE SECTOR

Part I: General Information

1. Which MFI/Bank do you work for?

   KCB ( ) Jamii Bora ( ) KADET ( ) Faulu Kenya ( ) Inuka Africa ( )

2. Please state the position that you hold in the organization?

   ....

3. Please state the length of time that you have been in the position?

   Less than 1 year ( ) 1-3 years ( ) 4-7 years ( ) 8-10 years ( ) Over 10 years ( )

4. Number of Staff in the organization/MFI unit

   1-20 ( ) 20-50 ( ) 50-100 ( ) 100-200 ( ) Over 200 ( )

5. Mean rate of staff experience

   Less than 1 year ( ) 1-3 years ( ) 4-7 years ( ) 8-10 years ( ) Over 10 years ( )

6. Number of Partners of the organization/ Unit where applicable

   Banks ( ) Foundations ( ) Insurance Companies ( )

7. Number of Branches in the country

   1-10 ( ) 10-50 ( ) 50-100 ( ) Over 100 ( )

8. Target groups of the organization/ MFI unit

   Women ( ) Youth ( ) Traders ( ) Farmers ( ) Groups* ( ) Individuals ( )

*Groups include chamas, saccos or societies formed by more than one individual

Part II: Micro Finance Products and Services Offered

9. Which credit products does your organization offer? Please state where appropriate

		INDIVIDUAL CATEGORY	GROUP CATEGORY
1	Personal Loans		
2	Emergency Loans		
3	Agricultural Loans		
4	School fees loan		
5	Medical Loan		
6	Stock Loans		
7	Working capital*		
8	Asset Finance Loans*		
9	Any other		

* Working capital loans could include advances against invoices, LPO finance etc

* Asset Finance loans could include vehicle machinery & Equipment

10. Which savings services does your organization offer? Please state where appropriate

No		INDIVIDUAL CATEGORY	GROUP CATEGORY
1	Savings Accounts		
2	Shares		
3	Any other		

PART III: FACTORS AFFECTING THE BUSINESS DEVELOPMENT STRATEGIES

11. Do you have criteria to identify factors that affect the process of developing business strategies?

    Tick where appropriate

    Yes ( ) No ( )

12. Looking at the process of the development of business strategies in your firm what are the factors that affect this process

Rank the following factors in order of importance. Use the following scale to guide you in rating your answers: (5 is very low, 1 Very High)

1) Very High
2) High
3) Average
4) Low
5) Very Low

Rating	**1**	**2**	**3**	**4**	**5**
i. Organizational Structure					
ii. Branch Network and Extent of Reach					
iii. Internal Capacity - Number of Staff					
iv. Qualifications of the staff					
v. Policies and procedural Operating Framework					
vi. Delivery Channels					
vii. Capital requirements					
viii. Sources of funding					
ix. Cost of Funds					
x. Number of Partners					
xi. Type of partners					
xii. Customer Base					

xiii.	Location of the clients					
xiv.	Sector in which the clients operate (Agriculture, Manufacturing, e.t.c)					
xv.	External Capacity for growth (Potential increase of customer base)					
xvi.	Advertising and marketing campaigns					
xvii.	Agency sales/banking					
xviii.	Product mix					
xix.	Turnaround times for delivery of products					
xx.	Regulation					
xxi.	Proposed changes in regulation (Finance Bill 2012)					
xxii.	Competition within the industry					
xxiii.	Ease of entry into the sector					
xxiv.	Substitute Products					
xxv.	Any other? Please state……………………………………					

13. Looking at the current strategy of the institution what factors would you take into consideration when reviewing the original strategy to best suit the changing environment?

Rank the following factors in order of importance. Use the following scale to guide you in rating your answers: (5 is very low, 1 Very High) 1) Very High 2) High 3) Average 4) Low 5) Very Low					
Rating	**1**	**2**	**3**	**4**	**5**
i. Changes in organizational structure					
ii. Staff Turnover					
iii. Research					
iv. Customer surveys					
v. Best Practice from other leading MFIs					
vi. Industry changes					
vii. Market changes					
viii. Technological evolution					
ix. Changes in legislation					
x. Any other? Please state.............................					

14. What are some of the challenges the organization faces and that may affect the development of business strategies in microfinance institutions/ units

Rank the following factors in order of importance. Use the following scale to guide you in rating your answers: (5 is very low, 1 Very High) 1) Very High 2) High 3) Average 4) Low 5) Very Low					
Rating	**1**	**2**	**3**	**4**	**5**
i. Organizational understanding of the microfinance sector and functions of the unit					
ii. Incompatibility of micro processes with the organization as a whole					
iii. Lack of Access to credit History of the Borrowers					
iv. Market penetration					
v. Sector penetration (Agriculture manufacturing trading)					
vi. Literacy level of borrowers					
vii. High cost of administration					
viii. Lack of structured and standardized MIS systems					
ix. Customs and traditions in rural areas					
x. Threat of new entrants					
xi. Commercialization of Microfinance					
xii. Any other? Please state.............................					

15. How does bank/institution strive to maintain its competitive advantage in a competitive environment?

Rank the following factors in order of importance. Use the following scale to guide you in rating your answers: (5 is very low, 1 Very High)

1) Very High
2) High
3) Average
4) Low
5) Very Low

Rating		**1**	**2**	**3**	**4**	**5**
i.	Periodic strategic review					
ii.	Product innovation					
iii.	Staff training					
iv.	Awareness Campaigns					
v.	Customized product programs					
vi.	Monitoring and Evaluation of running programs					
vii.	Creation of value chains in product offerings					
viii.	Strategic partnerships with appropriate stakeholders to enhance value propositions in product mixes.					
ix.	Identification of niche markets & sectors					
x.	Marketing & Advertisement					
xi.	Customer workshops to improve literacy levels					
xii.	Corporate Social responsibility					
xiii.	Any other? Please state					

16. What recommendations would you suggest to enhance the development of business strategies?

....
....
....
....
....
....

Appendix II: Association of Microfinance Institution Membership

1	AAR Credit Services	28	Micro Enterprises Support Fund(MESPT)
2	ADOK TIMO	29	Microensure Advisory Services
3	Agakhan First Microfinance Agency	30	Molyn Credit Limited
4	BIMAS	31	Muramati SACCO Society Ltd
5	Blue Limited	32	Musoni
6	Canyon Rural Credit Limited	33	Ngao Credit Ltd
7	Century DTM LTD(Interim)	34	Oikocredit
8	Chartis Insurance	35	One Africa Capital Limited
9	CIC Insurance	36	Opportunity International
10	Co-operative Bank	37	Pamoja Women Development Programme (PAWDEP)
11	ECLOF Kenya	38	Platinum Credit Limited
12	Equity Bank	39	Rafiki Deposit Taking Microfinance Ltd
13	Faulu Kenya DTM Limited	40	Remu DTM Limited
14	Fusion Capital Ltd	41	Renewable Energy Technology Assistance Programme (RETAP)
15	Greenland Fedha Limited	42	Rupia Limited
16	IndoAfrica Finance	43	Select Management Services Limited
17	Jitegemea Credit Scheme	44	SISDO
18	Jitegemee Trust Limited	45	SMEP DTM Limited
19	Juhudi Kilimo Company Limited	46	Sumac Credit Ltd
20	K-rep Bank Ltd	47	Swiss Contact
21	K-rep Development Agency	48	Taifa Option Microfinance
22	KADET	49	U & I Microfinance Limited
23	Kenya Entrepreneur Empowerment Foundation (KEEF	50	Uwezo DTM Ltd
24	Kenya Post Office Savings Bank	51	Women Enterprise Fund
25	Kenya Women Finance Trust	52	Yehu Microfinance Trust
26	Kilimo Faida	53	Youth Initiatives - Kenya (YIKE)
27	Micro Africa Limited		

Source: http://www.amfikenya.com

Appendix 111: List of Deposit Taking MFIs

• Faulu Kenya DTM Limited
• Kenya Women's Finance Trust DTM Limited
• Rafiki Deposit Taking Micro finance
• Remu DTM Limited
• SMEP Deposit Taking Microfinance Limited
• UWEZO Deposit Taking Microfinance Limited

Source: http://www.centralbank.go.ke/index.php/microfinance-institutions/14-bank-supervision/83-list-of-licensed-deposit-taking

APPENDIX IV: LIST OF BANKS IN KENYA

No	Bank or Institution	City	Branch Name	Swift Code
1	AFRICAN BANKING CORPORATION LTD	NAIROBI		ABCLKENAXXX
2	BANK OF AFRICA KENYA LTD	NAIROBI	NAIROBI	AFRIKENX001
3	BANK OF BARODA (KENYA) LTD	NAIROBI	(NAIROBI MAIN)	BARBKENANMO
4	BANK OF INDIA	NAIROBI		BKIDKENAXXX
5	BARCLAYS BANK OF KENYA, LTD.	NAIROBI		BARCKENXXXX
6	CENTRAL BANK OF KENYA	NAIROBI		CBKEKENXXXX
7	CFC STANBIC BANK LIMITED	NAIROBI		SBICKENXXXX
8	CHARTERHOUSE BANK LIMITED	NAIROBI		CHBLKENXXXX
9	CHASE BANK (KENYA) LIMITED	NAIROBI		CKENKENAXXX
10	CITIBANK N.A. NAIROBI	NAIROBI		CITIKENAXXX
11	CITY FINANCE BANK LTD	NAIROBI		CIFIKENAXXX
12	COMMERCIAL BANK OF AFRICA LTD.	NAIROBI		CBAFKENXXXX
13	CONSOLIDATED BANK OF KENYA LTD	NAIROBI		CONKKENAXXX
14	COOPERATIVE BANK OF KENYA LTD., THE	NAIROBI		KCOOKENAXXX
15	CREDIT BANK LIMITED	NAIROBI		CRBTKENAXXX
16	DEVELOPMENT BANK OF KENYA LIMITED	NAIROBI		DEVKKENAXXX
17	DIAMOND TRUST BANK KENYA LIMITED	NAIROBI	(HEAD OFFICE)	DTKEKENAXXX
18	DUBAI BANK KENYA LTD	NAIROBI		DUKNKENAXXX
19	ECOBANK KENYA LTD	NAIROBI		ECOCKENAXXX
20	EQUATORIAL COMMERCIAL BANK LTD	NAIROBI		EQUAKENAXXX
21	EQUITY BANK LIMITED	NAIROBI		EQBLKENAXXX
22	FAMILY BANK LIMITED	NAIROBI		FABLKENAXXX
23	FIDELITY COMMERCIAL BANK LTD	NAIROBI		FCBLKENAXXX
24	FINA BANK LTD	NAIROBI		FBAKKENAXXX
25	FIRST COMMUNITY BANK	NAIROBI		IFCBKENAXXX

	LIMITED			
26	GIRO COMMERCIAL BANK LTD	NAIROBI		GIROKENXXXX
27	GUARDIAN BANK LIMITED	NAIROBI		GUARKENAXXX
28	GULF AFRICAN BANK LTD	NAIROBI		GAFRKENAXXX
29	HABIB BANK AG ZURICH	NAIROBI		HBZUKENAXXX
30	HABIB BANK LIMITED	NAIROBI		HABBKENXXXX
31	HOUSING FINANCE COMPANY OF KENYA	NAIROBI		HFCOKENAXXX
32	I AND M BANK LTD	NAIROBI		IMBLKENAXXX
33	IMPERIAL BANK LIMITED	NAIROBI		IMPLKENAXXX
34	INDUSTRIAL DEVELOPMENT BANK LIMITED	NAIROBI		DEVIKENAXXX
35	KENYA COMMERCIAL BANK LIMITED	NAIROBI	(HEAD OFFICE)	KCBLKENXXXX
36	K-REP BANK LIMITED	NAIROBI		KREPKENAXXX
37	MIDDLE EAST BANK KENYA LTD	NAIROBI		MIEKKENAXXX
38	NATIONAL BANK OF KENYA LTD.	NAIROBI		NBKEKENXXXX
39	NIC BANK LIMITED	NAIROBI	(HEAD OFFICE)	NINCKENAXXX
40	ORIENTAL COMMERCIAL BANK LTD	NAIROBI		DELFKENAXXX
41	SOUTHERN CREDIT BANKING CORPORATION LTD	NAIROBI		SOCRKENAXXX
42	STANDARD CHARTERED BANK KENYA LIMITED	NAIROBI		SCBLKENXXXX
43	TRANS-NATIONAL BANK LIMITED	NAIROBI		TNBLKENAXXX
44	UBA KENYA BANK LIMITED	NAIROBI		UNAFKENAXXX
45	VICTORIA COMMERCIAL BANK LIMITED	NAIROBI		VICMKENAXXX

Source: http://www.theswiftcodes.com/kenya-2/