STRATEGIC PLANNING WITHIN MICRO FINANCE INSTITUTIONS IN KENYA

BY

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DECLARATION

This management project is my original work and has not been presented for a degree in any other university

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This management research project has been submitted for examination with my approval as the University Supervisor.

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PROF. EVANS AOSA

DEDICATION

To Almighty God: For His steadfast love and faithfulness to me.

To my parents: Margaret Njoki Nyingi and John Muchiri Nyingi for encouraging me to pursue this program.

To my husband: James Obando Mutonyi, my constant supporter and encourager.

To my dear son: Andrew John Obando, for filling my life with joy.

AND

To my sisters and my only brother: Mary Wanjiku, Dorothy Wanja, Maureen Wanjiru, Nicholas Muchiri - my oldest and truest friends.

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To all of you and all those I have not been able to name, thank you and may God richly bless you.

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ABSTRACT

Organizations all over the world operate within turbulent environments, which present a variety of challenges to them. Strategic management helps organizations cope with the rapidly changing state of affairs within the environment. Formal strategic management can be traced back to the 1950s in the United States of America. The popularity of this practice spread to the rest of the developed countries, and research work on strategic planning were conducted in this part of the world. Limited research work on strategic planning has been done in developing countries, and even less research is found in the African nations.

In the light of this, this study is to establish and document strategic planning practices within Micro finance institutions in Kenya. Micro finance organizations play a major role in the economic development of a country, by raising the levels of income and welfare of poor people. They support the poor and unemployed by giving small loans, often without collateral to establish small enterprises. The survey for the study was conducted in July, August, September, October and November 2002.

The objectives of this study were to establish and document the state of strategic planning within micro finance institutions in Kenya. The specific aspects under study are listed under the scope of the study.

The data was collected through personal interviews on open ended and closed questions. One manager in each organization was contacted. The data was then analyzed and comparisons made across the organizations. 53% of the organizations contacted responded to the study.

CHAPTER 1: INTRODUCTION

1.1 Background

When looking at the management literature, one finds that strategic planning is not a very new management tool. Its origins can be traced back to the late 1950s and early 1960s. Under conditions of extreme competitive turbulence the rediscovery of the strategic planning concept is hardly a surprise (Dierdonck and Caeldries1988). The business environment like any other is never stable. It goes through cycles of stability and turbulence. If it were constantly stable, firms could exploit their historical strengths to the maximum. But during turbulent periods, these historical approaches often cease to be effective.

The Kenyan business environment is no different. Business establishments experience the same cycle of stability and turbulence. Firms have to respond to external change to stay alive. They are environment dependent. They develop strategies that form the link with the environment. Some firms operate with formal strategic plans while others maintain largely informal operations (Kiliko, 2000).

Micro finance institutions (MFIs) are organizations that operate within the environment. They are environmental dependent. Micro finance business has been defined by the Association of Micro Finance Institutions (AMFI), as "receiving money by way of deposit or interest on money received by way of deposit, which is lent to others or used to finance wholly or partially operations of business." MFIs support the poor by giving them small loans, often without collateral to establish small enterprises. The micro finance industry in Kenya has been characterized by stability for a long period of time, dominated by some financial institutions and one major player, K Rep Enterprise. This organization was set up in 1984 as an umbrella organization to channel money to Non Governmental Organizations and to supervise the sector. But within a short time, it had become the most important source of finance for micro and small enterprises (Investment News, July 1997). With increased poverty and unemployment, the demand of micro lending increased, paving the way for other micro finance organizations to be set up.

The evolution and historical circumstances responsible for the emergence of the informal sector in Kenya can be traced back, in earnest, to the early 1960s when the newly independent government introduced trade licenses, work permits and state owned monopoly organizations, as well as permission to allow civil servants to operate businesses all as part of a broader strategy for the indigenization program (Mullei and Bokea, 1999). Due to the economic space and opportunities created by this set of legislation and subsequent slowdown in economic activity, especially beginning in the mid 1970s, the number of micro and small enterprises, often operating informally, continued to grow. The trend continued into the 1980s and early 1990s. In the latter period, this sector has witnessed a bustling of activity and a dramatically renewed interest by both external agencies and national governments in informal sector activities, with a desire to intervene directly in this sector, in contrast with the more or less benign neglect that characterized the early years. (Mullei and Bokea, 1999). With increased poverty, unemployment and retrenchment, many Kenyans have turned to micro lending as a source of capital to establish small enterprises. The trend has grown to make the informal sector a fast growing sector in Kenya in the face of slow economic activity.

Going by the above definition of micro finance business, only 15 out of the 100 registered MFIs qualify as actively practicing micro financing. These are differently structured with different target groups as their focus. There are those that operate in the slum areas especially within the city of Nairobi, and provide small loans to small enterprises; while others target businesswomen and groups, while others have a countrywide focus and operate in all districts within the country and provide loans to all qualifying individuals and groups (*The Financial Standard*, March 19, 2002).

With the entrance of new players into the industry, the structure of the whole industry changed. Competition intensified and every organization has to justify its continued existence in the society. The structure that existed earlier previously in the industry changed. It would be interesting to find out how the companies are operating to stay alive in the new competitive industry. The top management must now focus on the survival and future of the firms. The organizations have to increase their use of strategic plans, as the operating environment becomes more complex. Strategic planning would help the firms to secure survival (Johnson and Scholes,1999; Pearce and Robinson, 1997).

MFIs like other firms do not exist in isolation. They are environment dependent. In order for them to survive, they depend on the external environment (Porter, 1985, Ansoff & McDonnel, 1990, Pearce and Robinson 1997, Johnson & Scholes, 1999). They have to constantly adjust to the changing environment. In dynamic situations, managers need to consider the environment of the future and not just the past. Organizations in complex situations face an environment difficult to comprehend. These firms need to have strategic plans in place to ensure survival (Johnson & Scholes, 1999). It is evident that for a firm to respond to a turbulent environment and ensure continued survival as well as profitability in the long run, firms have to plan strategically.

1.2 External Environment of Business

The external environment is important for the success of organizations. This environment is turbulent, constantly changing, and so it makes it imperative for organizations to continually adapt their activities in order to assure survival. Organizations that do not adequately adjust to meet environmental challenges will experience a big problem – *the strategic problem* (Aosa, 1992). This problem arises out of the maladjustment of any organization to its environment.

The success and, indeed, survival of every organization depends on how well it relates with its challenges and how it positions itself to the external environment. Informed estimates of the impact of these complex and dynamic external environmental considerations, through proper analysis, ensure an organization's success (Pearce and Robinson, 1997; Hammond et al, 1998; Johnson and Scholes, 1999). An organization that does not take its external environment seriously will eventually perish. Environmental forces have inevitably forced organizations to strive to achieve a sustainable competitive advantage.

The major task of managers is to ensure the continued existence of their organizations. Organizations have developed and adopted different techniques overtime to help them cope with the threat posed by the strategic problem. One of the most recent and most comprehensive of these management approaches is strategic management. Strategic management involves various activities including formulation, implementation, control and evaluation of strategy (Pearce and Robinson, 1997). Central to this strategic management process is the concept of strategy.

1.3 The Concept of Strategy

Strategy is a multi dimensional concept and various authors have defined strategy in different ways. Strategy is the match between an organization's resources and skills and the environmental opportunities and risks it faces and the purpose it wishes to accomplish (Hofer and Schendel, 1979). It is meant to provide guidance and direction for the activities of the organization. Since strategic decisions influence the way organizations respond to their environment, the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Schendel and Hofer, 1979).

Ansoff (1965) views strategy in terms of market and product choices. According to his view, strategy is the "common thread" among an organization's activities and the market. Johnson & Scholes (1984) define strategy as "the direction and scope of an organization that ideally matches the results of its changing environment and in particular its markets and customers so as to meet stakeholder expectations". According to Jauch and Glueck (1984), strategy is "a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization". Organizations are in competition – competition for factor inputs, competition for customers, and ultimately, competition for revenues that cover the costs of their chosen manner of surviving. Because of competition, firms have choices to make if they are to survive (Rumelt etal, 1994).

Porter (1980) has defined strategy as a creation of a unique and vulnerable position of tradeoffs in competing, involving a set of activities that neatly fit together, that are simply consistent, reinforce defines strategy as the company's "game plan" which results in future oriented plans interacting with the competitive environment to achieve the company's objectives. This definition of strategy is important in this study as it reflects competitiveness in this environment and the game plan aspects that organizations put into place to be able to compete effectively.

The major tasks of managers is to assure success (and therefore) survival of the companies they manage. Strategy is useful in helping managers tackle the potential problems that face companies (Aosa, 1998). Strategy is a tool that offers significant help for coping with turbulence confronted by firms. It is therefore very important for managers to pay serious attention to strategy as a managerial tool. If the concept of strategy is to be of value, correct strategies have to be formulated and implemented: a process known as strategic management.

1.4 Statement of the Problem

All organizations face similar environmental challenges. They are open systems, which depend on the environment for inputs and outputs (Porter, 1985; Ansoff & McDonnel, 1990; David, 1997; Pearce & Robinson, 1997; Thomson & Strickland, 1998; Johnson & Scholes, 1999). Since organizations cannot alter these environmental factors during their decision making periods, they must adapt their operations accordingly, if they are to survive. One major approach that positions an organization into its environment is strategic management. This approach has led organizations to key strategic management questions such as – what kind of business should we become? Are we in the right field? Should we reshape our business? What new competitors are entering our industry? How are our customers changing? Are new technologies being developed that could put us out of business?

In Kenya, it is now widely recognized that the promotion of the micro and small enterprise sector is a viable and dynamic strategy for achieving national goals, including employment creation, poverty alleviation and balanced development between sectors and sub sectors. All these together, are essential for the foundation of a strong national industrial base and domestic production structure that is central to the government's vision of achieving newly industrialized country status by the year 2020 (Mullei and Bokea, 1999). Due to this increase in demand for micro financing, this sector has attracted new entrants and competition has intensified.

The growth of Kenya's Micro Finance Industry has witnessed at least 100 non-governmental organizations (NGO'S) offering services to clients. However, only 15 organizations can be classified as significant players. With the increase in the number of organizations in the industry with the same services, competition was introduced and it was important for firms to have strategic plans in place to ensure continued existence amid intensified competition. In the face of rising costs of operation, increased competition for few donors, these organizations need thoughtful innovation, if they are to survive in this turbulent environment. MFIs like other organizations can benefit from strategic planning.

Micro Finance Institutions, like other organizations are operating in the changing Kenyan business environment. They have to adapt to these changes to remain competitive and successful. Other organizations have turned to strategic planning in an effort to seek success. Though some studies have been done on MFIs in Kenya (Mutua & Mirero, 1985; Dondo, 1989, 1990, 1994, 1999; Yoder, 1990; Kiplagat, 1997; Kamau, 1992; Mutua, 1989, 1991, 1992, 1994, 1995; Lwande 1992;

Mullei & Bokea, 1999), none of them was on strategic planning. The problem is, have these firms turned to strategic planning?

1.5 Objective of the Study

The objective of the study is to establish and document strategic planning practices within Micro Finance Companies in Kenya.

1.6 Importance of the Study

The contribution of the micro finance sector in the economic development of the Kenyan economy cannot be overlooked. In Kenya, it is now widely recognized that the promotion of the micro and small enterprises is a viable and dynamic strategy for achieving national goals, including employment creation, poverty alleviation. Together, this form the foundation of a strong national industrial base and domestic production structure that is central to the government's vision of achieving a newly industrialized country status by the year 2020. Through the micro lending activities by the MFIs to these enterprises, results form the micro and small enterprise baseline survey in Kenya conducted in 1999, show that the sector contributes at least 13.8% of Kenya's gross domestic product (GDP), (Mullei and Bokea, 1999).

The research will address strategic planning within MFIs and will be a further contribution to research work on strategic management in the micro finance sector. Knowledge in this field will assist managers in the micro finance sector and assist them to understand the importance of strategic planning practices. The research will also make a contribution to the strategic management practitioners in regards to the micro finance sector. Management consultants who may need to advise their clients on strategic management will find this research extremely valuable.
To the academicians, this study hopes to shed light in this area and add knowledge and hopefully stimulate further research into practices within the sector.

1.7 Scope of the Study

The study will cover strategic planning practices within the Micro Finance institutions in Kenya. Focus will be on the analytical aspects of strategy. Note that not all aspects of strategy planning will be studied. The research will be limited to the following aspects of strategic management:

- Organization vision and mission
- Objectives and objectives setting
- Formality in planning
- Participation in planning
- Planning time horizon
- Core values
- Written strategic plans
- Environment scanning
- Revision of strategic plans
- Competitor Analysis
- Market Analysis
- Choice of Strategy

1.8 Structure of the Final Project

This paper will be divided in the following sections.

Chapter One: Introduction

This will contain the introduction, which will give an overview of the study. There will be an introduction of the industry, statement of the problem, the objectives and importance of the study and the definitions.

Chapter Two: Literature Review

In this chapter, the review of important literature that ha been written will be included. Further to what has been written globally on strategic management practices, will be the research that has been done so far as strategic management is concerned in Kenya. This chapter will further include the approaches used by Micro finance organizations in Kenya with a focus in strategy formulation.

Chapter Three: Research Methodology

This chapter will outline the following.

- Population and sample
- Data collection
- Data analysis

Chapter Four: Data Analysis and Findings

This chapter will cover research findings, and discussion of results.

Chapter Five: Summary and Conclusions

This chapter will present a summary of the research findings, the conclusions of the study, and its contributions. It will also look into the limitations of the study and suggest areas of further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Strategic Management

The nature of strategic management is different from other aspects of management. It is not enough to say that it is the management of the process of strategic decision making. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organization–wide implications (Johnson and Scholes, 1999). Strategic management includes strategic analysis, choice, and implementation. This is where the strategist seeks to understand the strategic position of the organization. Strategic choice has to do with the formulation of possible courses of action, their evaluation and the choice between them. Lastly, strategy implementation which, is concerned with both planning how the chosen strategy can be put into effect, and managing the changes required (Johnson and Scholes, 1999).

Strategic management includes all activities that lead to the definition of the organization's objectives and to the development of programs, actions and strategies to accomplish these objectives. It provides basic direction and framework within which all organizational activities take place. Peace and Robinson (1997) look at strategic management as the formulation, implementation, control and evaluation of business strategies to achieve future objectives. Strategic management issues require top management decisions. This is because they require a large amount of the firms' resources and often affect the firms' long- term prosperity. They are future oriented and have a multi functional or multi business consequence. They require considering the firms' external environment.

The strategic management process can be depicted as a series of steps. The components are:

a). Strategy Formulation

- Company vision and mission
- Company objectives
- Internal analysis
    - Situation analysis
    - Environmental scanning
- Competitor analysis
- Industry analysis
- Market analysis
- Strategy selection

b) Strategy implementation

c) Strategy evaluation and control (Pearce and Robinson, 1997).

2.1.1 Company Vision and Mission

The process of strategy formulation begins with definition of the organization's vision. The vision then directs the mission (the purpose of the business undertaking). This is defined to reflect the values of the wide variety of interested parties (the stake holders). This has to be done whether for new business or reformulating direction for an on going business, it must determine the basic goals and philosophies that will shape its strategic posture (Glueck and Jauch, 1988; Pearce and Robinson, 1997).

The specification of the organization's mission marks the beginning of strategy analysis. It serves a crucial purpose in organizational decision-making and tries to answer the question: '*what business are we in?*' This reveals an organization's scope of the business activities it pursues – product or service, markets, customers and philosophy (Glueck and Jauch, 1988).

A good mission statement focuses around customer needs and utilities (Andrew, 1971). Strategy will only make sense if the markets to which it relates are known. Defining the company's markets is the starting point of the strategy making process.

2.1.2 Company Objectives

Objectives are statements indicating among others, the specific performance targets which the organization aims at achieving and the competitive position the organization seeks to occupy in the market place (Glueck and Jauch, 1988). Organizations pursue a variety of objectives, some are long-term and others are short-term in nature.

Objectives are integral to the strategic management process. They ensure that the organization's direction is converted into specific achievable performance targets. They provide yardsticks by which the organization's performance is judged. It then becomes possible to evaluate success. They also provide more specific definitions of the organization (Glueck and Jauch, 1988). Objectives change over time as a result of alterations of goal orientations, crisis, and demands from coalition groups within the sector and normal life-cycle changes.

2.1.3 *Internal Analysis*

Internal analysis is the process by which the strategists examine the organization's functional areas so as to determine where the organization has significant strengths and weaknesses (Ansoff, 1965; Porter, 1980; Pearce and Robinson, 1997). It involves the organization undertaking its own self-appraisal and develop strategies that are in line with the internal capabilities. This in turn helps in developing sustainable competitive advantages and minimizing the weaknesses. In their writings, these authors have stressed that every organization must determine what its distinctive competences are so that it can make decisions about how to use these abilities now and in the future. Functional capabilities are determined by the competencies that have been developed in the key functional areas (Ansoff and McDonnel 1990). These competencies can be demonstrated in the organization's value chain.

A company's value chain is a system of interdependent activities, which are connected with linkages. Linkages exist when the way in which one activity is performed affects the cost of effectiveness of other activities. Linkages often create trade-offs in performing different activities that should be optimized. This optimization may require trade-offs. For example, a more costly product design and more costly product design and more expensive raw materials can reduce after-sale service cost. A company must resolve such trade-offs, in accordance with its strategy, to achieve competitive advantage.

Linkages also require activities to be coordinated. On-time delivery requires that operations, outbound logistics, and service activities should function smoothly together. Good coordination allows on-time delivery without the need for costly inventory. Careful management of linkages is often a powerful source of competitive advantage because of the difficulty rivals have in perceiving them and in resolving trade-offs across organizational lines.

The value chain for a company in a particular industry is embedded in a larger stream of activities that we term the "value system". The value system includes the value chains of suppliers, who provide inputs (such as raw materials, components, and purchased services) to the company's value chain. The company's product often passes through its channels' value chains on its way to the ultimate buyer. Finally, the product becomes a purchased input to the value chains of its buyers, who use it to perform one or more buyer activities.

Linkages not only connect value activities inside a company but also create interdependencies between its value chain and those of its suppliers and channels. A company can create competitive advantage by optimizing or coordinating these links to the outsider. Competitive advantage in either cost or differentiation is a function of a company's value chain. A company's cost position reflects the collective cost of performing all its value activities relative to rivals. Each value activity has cost drivers that determine the potential sources of a cost advantage. Similarly, a company's ability to differentiate itself reflects the contribution of each value activity toward fulfillment of buyer needs. Many of a company's activities contribute to differentiation. Buyer needs, in turn, depend not only on the impact of the company's product on the buyer but also on the company's other activities for example, logistics or after sales services (Porter, 1998).

2.1.4 Environmental Scanning

Environmental scanning (analysis) is the process by which strategists monitor the environmental sectors (economic, political/legal, social/cultural, technological or ecological) to determine opportunities for and threats to the organization (Pearce and Robinson, 1997). This analysis and diagnosis is necessary because environmental factors are prime influencers of strategy change. The scanning gives planners time to anticipate opportunities and plan to take optimal responses to them; developing an early warning of any negative deviations. If a firm ceases to adjust its strategy to the environment, the result is lessened achievement of corporate objectives (Glueck and Jauch, 1988; Thompson, 1990).

2.1.5 Industry Analysis

There is need to understand the nature of the industry or sector in which an organization is operating. Industry analysis involves the organization comprehensively studying the nature of the industry it operates in. An industry is a cluster of organizations or economic units competing with one another for customers for their goods and services and which rely upon others that supply critical inputs (Glueck and Jauch, 1988). It is therefore important to carry out an industry analysis to establish structure and trends. These in turn help to indicate the current and future attractiveness of that industry. This assists an organization to position itself in the industry (Porter, 1980. 1985: Thompson, 1990).

Porter further points out that the attractiveness of the industry is dependent on the degree of competition in the particular industry. This is in turn determined by 5 factors, which Porter refers to as the 5 forces of industry analysis model.

- The threat of new entrants
- Threat from substitute products
- Rivalry within the industry
- Bargaining power of buyers
- Bargaining power of suppliers

New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be bid down or incumbent's costs inflated as a result, reducing profitability. Threat of entry depends on the barriers to entry that are present, together with the reaction from existing competitors that the entrant can expect. Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price performance alternative offered by substitutes, the firmer the lid on industry profits. Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services and playing competitors against each other – all at the expense of industry profitability.

Suppliers can exert bargaining power over participants in an industry by threatening to raise or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. This takes the form of jockeying for position – using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position.

Once the forces affecting competition in an industry and their underlying causes have been diagnosed, the firm is in a position to identify its strengths and weaknesses relative to the industry. The crucial strengths and weaknesses are the firm's posture vis-à-vis the underlying causes of each competitive force. Where does the firm stand against substitutes, the sources of entry barriers, coping with rivalry from established competitors.

Not all the factors will be important in any one industry. Rather, the framework can be used to identify rapidly what are the crucial structural features determining the nature of competition in a particular industry (Porter, 1980).

2.1.6. Competitor Analysis

The strategic management process ultimately aims at developing competitive advantage for the firm (Porter, 1980, 1985). The firm is striving to outmaneuver its competitors in order to survive. This in not possible if there is lack of sufficient information about its rivals. Strategies of competitors are also highly interdependent and so competitors' position is a crucial determinant of the choice of strategy (Thompson and Strickland, 1998).

Effective competitor analysis requires systematic study about both existing and potential competitors. The process entails gathering substantial data. According to Porter (1980), the factors that need to be understood with regard to competitors include:

- future goals of competitors
- competitors' perceptions of themselves and the industry
- competitors current strategies
- capabilities of competitors

2.1.7 Market Analysis

Prior to the development of strategies, the organization needs to understand its market (Porter, 1980, 1985). Successful companies are market – oriented and strive to maintain a true customer focus. They understand that the essence of their business in the customer. Market analysis entails the development of customer profiles. Questions that should arise are: *Who are the customers? Where are they located? What type of lifestyle have they adopted? Are all the customers the same? What are customer preferences? Can the customers be segmented?* With such information, the organization is able structure its customers on the basis of age, gender, location and income group. This is the basis of developing products or services and positioning them so that they satisfy customers.

2.1.8 *Strategy Selection*

This activity involves focusing on several alternatives, considering the selection criteria, evaluating all alternatives against the criteria and making the actual choice. Making decisions is the most important job of any executive. It is also the toughest and the riskiest (Hammond et al 1998). Several techniques have been developed to enable managers generate and compare strategy alternatives (Aosa, 1992). These include the Boston Consulting Group business matrix, 9-cell portfolio matrix (product-market evolution) and financial analysis. Strategy selection is not a routine or simple decision. The choice of strategy is made in the context of the decision maker and the decision situation. Past strategies are the beginning point of strategic choices.

2.1.9 *Strategy Implementation*

Once the strategic planning process is complete, the strategy must be implemented. No matter how creative and well formulated the strategic plan, the organization will not benefit if it is incorrectly implemented. Strategy implementation involves several dimensions of the organization. It requires changes in the organization's behavior, which can be brought by changing one or more dimensions, including management's leadership ability, organizational structure, information and control systems, human resources, and production technology.

Leadership is getting others to do what the leader wants them to do. Managers must influence organizational members to adopt the behaviors needed for strategy implementation. Leadership includes communication and motivation as well as changes in corporate values and culture. Managers seeking to implement a new strategy may find it useful to build coalitions and persuade middle managers to go along with the strategic plan and its implementation. If leaders involve other managers during strategy formulation, implementation will be easier because managers and employees will better understand, and be more fully committed to, the new strategy.

Organizational structure is typically illustrated in the organization chart. This structure indicates individual managers' responsibilities and degree of authority and incorporates jobs into departments. Structure also pertains to the degree of centralization and whether a functional, divisional, or matrix approach will be utilized.

Information and control systems include reward systems, incentives, management-by-objective types of systems, budgets for allocating resources, information systems, and the organization's rules, policies, and implementation. A proper mix of information and control systems must be developed to support the implementation of the strategic plan. Managers and employees must be rewarded for adhering to the new strategy and making it a success, or the intensity of implementation will be reduced substantially.

The human resources of an organization are its employees. The human resource function involves recruitment, selection, training, transfers, promotion, and layoffs of employees to properly implement the strategic plan. New strategy may foster resentment and resistance among other managers and employees, and this is a matter that must be resolved quickly or it may hinder strategy implementation. In essence, a proper balance of human resources must be developed to support strategy implementation.

Technology relates to the knowledge, tools, and equipment used to accomplish an organization's assignments. If an organization adopts a strategy of producing a new product, managers must often redesign jobs and construct new buildings and facilities. New technology, because of its efficiency, may also be required for implementing a low-cost strategy. As with other aspects of strategy implementation, the appropriate level of technology must be found for proper implementation of the strategic plan (Porter, 1980).

2.1.10 Strategy Evaluation and Control

Evaluation of strategy is the phase where managers try to assure that the strategy chosen is properly implemented and is meeting the objectives of the organization. Control and evaluation process helps strategists monitor the progress of a plan. Evaluation and control processes are set up to be sure the gap between expected and desired objectives will be closed according to the strategy (Pearce and Robinson, 1997).

The evaluation process is thought of as comprising four interrelated activities (Karemu, 1993):

- i) establish performance targets, standards and tolerance limits
- ii) measure the actual position in relation to the targets at a given time
- iii) analyze deviations from acceptable tolerance limits
- iv) execute modifications if any necessary and /or feasible.

Though the above model may portray formality in strategic management, a number of factors determine how much formality is needed. These factors include the management style, complexity of the environment and the size of the organization (Pearce and Robinson, 1997).

2.2 Historical development of Strategic Management

Formal strategic management seems to have its beginning in the 1950s in the United States of America, through writers like Drucker (1954), Chandler (1962), Ansoff (1965) and Andrews (1971). Studies conducted in the late 1960s and early 1970s indicated that corporate planning was practiced in the United States (Ringbakk, 1969; Rue, 1972; Lorange and Vancil, 1977; Steiner et al, 1983) and abroad (Denning and Lehr, 1971; Taylor and Irving, 1971; Steiner and Schollhamer, 1975). Managers increased their familiarity with strategic planning and increasingly adopted it in their organizations. This period was characterized by relatively stable external environments.

Prior to the 1950s, organizations attempted to tackle the strategic problem by using such managerial techniques as long term planning, long-term budgeting and financial control. Harrison (1996) identified seven models of planning, long term budgeting, operational planning, production/manpower planning, long range planning, ad hoc strategy formulation, formal strategic planning at intervals, and routine formal strategic planning. This was an era when the environmental turbulence was low (David, 1997). The future of the organizations was expected to be reasonably similar to the past due to the stable environment. Managers adapted and reacted to events as they occurred. Strategies emerged from a consensus of top management opinions.

Strategic planning was born in the 1960s. Organizations adopted it after a realization that the environment was not stable any longer. However, it was faced with a lot of criticisms in 1970s. During this era, the business environment was rather steady and most organizations were not faced with threatening competition, consumers were satisfied with services offered, the economy was stable. Organizations were able to interpolate the future trends using past results and strategic planning was no longer viewed as a fundamental element. In 1980s, the trend changed and there was a sudden need to revitalize strategic planning. Strategic plans were not adaptable to the turbulent environment, and had therefore to be reshaped to adapt to the external environment for organizations to gain competitive advantage. This was a clear indication that strategic planning is an important element in any organization. Despite these criticisms, strategic planning is widely practiced today. It has to be tuned to assist organizations cope with emerging environmental realities.

2.3 Value of Strategic Management

Managers have been faced with the need to adapt increasingly complex organizations to rapidly changing environments. Strategic management helps organizations cope with the turbulence in the environment. It is too important for any organization to ignore. Porter (1980) summarized the value of strategic management. Firstly an organization's strategy provides the central purpose and direction (vision, mission and objective) to the activities of the organization, to the people who work in it, and often to the world outside (framework of the organization's actions.) The company is able to perform current activities while at the same time viewing them in terms of their long-term implications.

Secondly, strategic management enables organizations to adapt under conditions of externally imposed stress or crisis because of the changing environment. Organizations can and do often create their environment, besides reacting to it by focusing on strategic issues.

The third value according to Porter (1980) is that strategic management helps companies develop sustainable competitive advantage. In developing strategy, organizations carry out an analysis of their external and internal environment and see where they can performs their competitor s and vise versa. This enables the company to outperform competition. The goal is to help secure a competitive advantage over rivals.

Fourth, that strategic management is important for the management of the organizations boundaries interface. This sustained the legitimacy of the organization and enhances the quality of its relationship with the outside environment (effective/futuristic orientation).

Lastly, strategic management helps organizations to be more focused in their efforts effective in resource allocation and key success factors. It helps to cultivate a culture of forward thinking and therefore creating a culture of learning organizations.

2.4 Approaches to Strategy

Approaches to strategic management can be classified into two groups. These are analytical and behavioral. These approaches are based on their view of dominant variables in strategy development. The analytical approach emphasizes the importance of analysis in strategy development. This approach focuses on techniques like portfolio planning, forecasting, competitor analysis and environment scanning. With the rational analytical view strategy formulation, is seen as a formal, deliberate, disciplined and rational process (Ansoff, 1984).

The behavioral approach lays its emphasis on the behavior of the people in the organization. This process states that strategy is influenced by the power relationships and behavioral factors in a firm (Mintzberg, 1994). The emphasis is on multiple goals of the organization as well as the political aspects of strategic decisions and the importance of bargaining and negotiation and the role of coalitions in the strategy making process. Mintzberg points out that not all intended strategies are realized and not all realized strategies are intended. Realized strategy is often emergent in nature. Emergent strategy "emerges" out of an organizations day to day activities. The organization does not have any set objectives to pursue. As it goes along its daily activities, the dynamic external environmental forces inevitably impacts on its operations and at that point the management formulates a strategy for the organization. Emergent strategy is therefore based on responses to emerging opportunities and threats (Mintzberg and Waters,1985) they are a result of deliberate decisions to focus resources in order to pursue a new direction whilst modifying and some aspects of earlier strategic intent.

On the other hand, deliberate strategy is a purposefully planned direction towards a set of objective by an organization. It is an analytical process of the organization realigning its operations to fit well with the opportunities and threats existing in the external environment. Deliberate strategy takes into consideration the structure of the organization, its culture, systems, capacity in the light of the environmental forces, and the current situation within its industry.

2.5 Strategic Management in Kenya

There are fundamental changes that have taken place in the Kenyan economic scene over the last few years. The most notable is the liberalization, which has established a free market and increased competition in the economic scene in Kenya. The business scene in Kenya has therefore changed in the decade. This means that what was working for firms before may have become obsolete and there is need to rethink their strategies (Mwaura, 2001). There are various studies done in the field of strategic management in Kenya.

Some of the studies done in the field of Strategic Management include that done by Aosa (1992). He carried out a study on strategy practices among large manufacturing companies in Kenya. The results of the study established that foreign companies differ significantly from Kenyan companies in Kenya. The foreign companies were found to be more formal. This was attributed to the influence of their parent companies, access to managerial resources, formal organizational structures and professional managerial approaches. Karemu (1993) looked at strategic management aspects in the large-scale retail sector. The study done, established that supermarkets practice minimum budgetary forms of strategic management. Planning characteristics included reliance on intuition and ability to pursue long-term goals, prevalence of budgets and large informal planning activities. Shimba (1993) studied the Kenyan financial sector and established both variations and similarities between the companies with respect to strategy practices. The variations were based on size, ownership and strategic orientation. Foreign companies had a longer planning horizon than their local counterparts and therefore were inclined to develop strategic plans. Mbayah (2000) looked at strategic practices amongst the Internet Service Providers. These studies done in Kenya focused on strategy practices in the different industries that they focused on. As a result they made contributions in the area of strategy implementation in different industries. This study will focus on Strategic planning within Micro Finance Institutions in Kenya. This part of the industry had not been studied as far as Strategic Management is concerned.

2.6 The Micro Finance Industry in Kenya

The goal of micro finance organizations is to raise the levels of income and welfare of poor people. They support the poor and unemployed by giving them small loans, often without collateral to establish small enterprises. Kenyans are today faced by increased poverty, unemployment, and insecurity of the AIDS pandemic, scarcity of food and rural urban migration among others. There are multilateral and bilateral donor organizations with micro finance development programmes operating in Kenya. These organizations serve all regions of the country, although there are more in the urban areas (Mullei & Bokea, 1999).

MFIs address these problems by accessing small loans at affordable repayment rates, and other financial services to small entrepreneurs. These take the form of self-help projects and individual enterprises. MFIs lend up to a maximum of the prevailing per capita income, which currently stands at US$ 282. This translates into Kshs 500,000.00 per applicant. The minimum amount per applicant can be as low as Kshs 5,000.00. The 1999 National Micro and Small Enterprises (MSE) Baseline survey found that micro financing, a core source of funding for micro and small enterprises, contributes 18% of the Gross Domestic Product and employs 2.3 million people (The Financial Standard, March 19, 2002).

MFIs, like other organizations are operating in the changing Kenyan business environment. They have to adapt to this changes to remain competitive and successful. Other organizations have turned to strategic planning in an effort to seek success. It is not clear whether MFIs have adopted strategic planning as a tool.

2.6.1. Structure of the sector

MFIs depend heavily on donor funding to carry out their operations. There are several donor organizations operating in Kenya that are extending funds to this sector. Some are international while others are local. A few major international donors are The Ford Foundation, DFID (Department for International Development) a division of the British government, Stommoe Foundation, and Novip Foundation. The notable local donor foundations are Jitegemea Trust and MESP (Micro Enterprise Support Programme). Micro finance institutions borrow funds from these organizations at a rate of 6% to 10% per annum, which is more attractive as compared to the commercial lending rates in the Kenyan finance institutions. The MFIs subsequently lend credit to micro enterprises at a rate of 18% to 30% per annum (Mullei and Bokea, 1999).

The structure of operation of the MFIs is mainly dictated by the market segments they serve. There are those that dedicate their services to women entrepreneurs, solidarity groups, group based projects, community projects and others focus on individual farmers. The products they offer are similar, primarily credit lending to existing enterprises for expansion of the enterprise, and there are some that provide savings facilities to their clients offering an interest on their savings. MFIs in Kenya are predominantly local in ownership, and therefore have their headquarters in Nairobi.

Their branch network depends on the location of their target markets, some are found primarily in rural areas, while others have their branches in the urban towns.

2.6.2. Challenges facing the sector

The major challenge within the sector is fund raising. This sector depends heavily on donor funding for its survival and growth. This is because main product offered by the industry is credit facilities to its clients. The more funding a micro finance institution is able to solicit, the larger the market share and a more sustained growth pattern will be established.

Lack of a legal infrastructure governing the sector, is a major challenge. This is mainly in the areas of registration prerequisites, in that there are no minimum requirements outlined by the government for the registration of an MFI. This has created a lack of a level playing ground in the sector.

Competition is another challenge facing the sector. The biggest rivals yet are the cooperative societies in Kenya. The standard lending rate of these societies is 12% per annum, which is far below that of the micro finance institutions. These societies exhibit themselves in the formal professional sectors as well as in the informal sectors. Those in the informal sectors are the biggest threat to the micro finance sector, because they are in direct competition with MFIS for same set of clientele.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 The Population

The population of the study comprised of all the micro finance institutions registered as actively involved in micro financing in Kenya. Presently there are 15 of them.

3.2 The Sample

All the 15 Micro Finance organizations were contacted, due to the small size of the sample. However, only 8 responded. This formed 53% of the population

3.3 Data Collection

Quantitative and qualitative data were collected for the purpose of comparison across the organizations. Personal interviews were conducted. The interviewer asked open ended and closed questions using a structured questionnaire. Those interviewed were senior managers from the 8 organizations.

3.4 Data Analysis

Before processing the data, the personal interview responses were edited for completeness and consistency. The data was coded then tabulated. Descriptive statistics were computed such as percentages, frequencies and means, which were used to make comparisons across the organizations studied.

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSIONS

This chapter will cover research findings, discussions of the study results and recommendations. The data in this study was summarized and presented in the form of tables, percentages, frequencies and means. A total of 8 MFIS out of 15 were eventually analyzed translating to 53%. This response rate was considered adequate enough to base conclusions on.

4.1 Characteristics of the surveyed MFIs

Table 1. Personal data of respondents

Position held	*Frequency*	*Percentage*
Top Level Manager	7	87%
Middle Level Manager	1	13%

Source: Interviews

Table 2. Length of Service in the Organization

Years	*Frequency*	*Percentage*
1-5	4	50%
6-10	2	25%
10 and above	2	25%

Source: Interviews

Table 3. Gender of Respondent

Gender	*Frequency*	*Percentage*
Male	6	75%
Female	2	25%

Source: Interviews

Table 4. Age bracket of respondents

Age	*Frequency*	*Percentage*
25 or below	0	0
26-30	0	0
31-35	1	12%
Above 35	7	88%

Source: Interview

Table 5. Experience of respondent in the industry

Years	*Frequency*	*Percentage*
1-5	2	25%
6-10	4	50%
11 and above	2	25%

Source: Interview

Table 6. Year of MFI'S establishment

Year of establishment	*Frequency*	*Percentage*
Before 1990	1	13%
1990-1995	1	13%
1996-2000	5	61%
After 2000	1	13%

Source: Interviews

Table 7. Company Ownership

Ownership	*Frequency*	*Percentage*
Predominantly local (51% or more)	6	75%
Predominantly foreign	1	12.5%
Group Ownership	0	0
Individual	0	0
Government Owned	1	12.5%

Source: Interviews

Table 8. Number of employees in the MFI

Numbers	*Frequency*	*Percentage*
10 and below	3	38%
11-30	0	0%
31- and over	5	62%

Source: Interviews

Table 9. Products and services offered by MFIs.

Service offered	**Frequency**	**Percentage**
Micro lending services to existing small entrepreneurs	8	100%
Training existing clients on small business management skills	4	50%
Start up capital lending services	8	100%
Savings facilities	2	25%

Source: Interview

Table 10. Growth experienced since establishment

	Frequency	***Percentage***
YES	8	100%
NO	-	-

Source: Interviews

Table 11. Forms of growth experienced.

Growth experienced	***Frequency***	***Percentage***
Geographical	8	100%
Asset base	5	63%
Client base	8	100%
Product portfolio	5	63%
Capital outlay	8	100%
Number of Staff	8	100%

Source: Interview

Table 12. Difficulties experienced in achieving targets.

	Frequency	***Percentage***
YES	6	75%
NO	2	25%

Source: Interviews

4.2 Findings on Strategy Planning Practices and Formulation

Table 13. Presence of mission statement in the organization

	Frequency	*Percentage*
YES	6	75%
NO	2	25%

Source: Interview

Table 14. Presence of vision statement in the organization.

	Frequency	*Percentage*
YES	6	75%
NO	2	25%

Source: Interview

Table 15. Presence of core values in the organization.

	Frequency	*Percentage*
YES	6	75%
NO	2	25%

Source: Interview

Table 16. Core Values identified.

Core Value	*Frequency*	*Percentage*
Honesty	8	100%
Integrity	8	100%
Accountability	8	100%
Team Spirit	8	100%
Christian principles upholding work ethics	3	38%

Source: Interview

Table 17. Methods of communicating mission, vision statements where they are present

Mode of Communication	*Frequency*	*Percentage*
On notice boards and wall hangings	6	100%
In the in - house journals	3	50%
Printed on product brochures	3	50%
New staff induction manual	2	33%
At general staff meetings	3	50%

Source: Interview

Table 18. Presence of objective setting practices in the organizations.

	Frequency	*Percentage*
YES	8	100%
NO	-	-

Source: Interviews

Table 19. Involvement in objective setting.

Functional Areas	*Frequency*	*Percentage*
Finance	-	-
Operations	-	-
Human Resources	-	-
At all levels of the organization	8	100%
Other	-	-

Source: Interview

Table 20. Objective setting approach adopted.

Approach	*Frequency*	*Percentage*
Bottom up	8	100%
Top down	-	-
Interactively	-	-

Source: Interviews

Table 21. Levels of involvement in objective setting

Level	*Frequency*	*Percentage*
Board of Directors	6	75%
Top management	8	100%
Departments	8	100%

Source: Interviews

Table 22. Percentage of annual budget towards strategic planning expenditure

% of annual budget	*Frequency*	*Percentage*
0-10%	8	100
11-20%	-	-
30-40%	-	-
50% and over	-	-

Source: Interview

Table 23. Involvement in strategic planning process

	Frequency	*Percentage*
Board of directors	8	100%
Top management	8	100%
Departments	8	100%
External consultants	2	25%

Source: Interviews

Table 24. Presence of environment, market, competitor and SWOT analysis in the organization.

	Yes Frequency	*Percentage*	*No Frequency*	*Percentage*
Environment analysis	7	88%	1	12%
Market analysis	5	63%	3	37%
Competitor analysis	3	37%	5	63%
SWOT analysis	6	75%	2	25%

Source: Interview

Table 25. Involvement in environment, market, competitor and SWOT analysis.

	Frequency	*Percentage*
Top management	8	100%
Departments	6	75%

Source: Interview

Table 26. Involvement in developing alternative strategies

	Frequency	*Percentage*
Top management	8	100%
Departments	6	75%

Source: Interview

Table 27. Planning Time Horizon

Years	*Frequency*	*Percentage*
1-5	6	75%
6-10	2	25%

Source: Interviews

Table 28. Factors that influence choice of strategy.

Factors	*Frequency*	*Percentage*
Level of funds available	8	100%
Directives by the board of directors	6	75%
Quality of human resource	5	63%
Level of turbulence in the external environment	8	100%
Quality of information technology (IT)	4	50%

Source: Interview

Table 29. Responses to statements in reference to certain aspects of strategic planning.

	TRUE		FALSE	
	Freq.	%	Freq.	%
Your organization has developed a strong vision of the future that it would like to realize	6	75%	2	25%
All the people in the organization are involved in creating this vision	5	63%	3	37%
The elements of the traditional organizational values and old identities are included in the vision	8	100%	-	-
Your organization has a strategy that responds to the changing environment	8	100%	-	-
All employees in your organization are involved in reviewing plans	4	50%	4	50%
Existing plans get reviewed and improved on a regular basis	6	75%	2	25%
Your organization makes objectives clear to all employees	8	100%	-	-
Your organization involves everyone in objective formulation	6	75%	2	25%
Your organization has written plans and objectives	8	100%	-	-
Your organization communicates plans and objectives to the whole organization	8	100%	-	-

Source: Interview

Table 30. Mean scores given in reference to statements on certain aspects of strategic planning

1	*2*	*3*	*4*	*5*
(Strongly Agree)	*(Agree)*	*(Fairly Agree)*	*(Disagree)*	*(Strongly Disagree)*

	Mean Score
We regularly examine the economic, political and market trends which affect our business	3
All members of the organization play a part in formal planning	3
Our organization reacts proactively to trends in the environment	2
Our organization has informal plans	4
Departments and units are involved in setting goals and objectives of the whole organization	2
We rely heavily on directives from the head office	4
The organizational plans and strategies are very flexible and changes frequently	2
The board of directors play an important role in the strategy formulation of the organization	2
There are internal hindrances to objective setting	4
We are open about our intentions and strategies	3
Everyone is encouraged to communicate ideas	2
Business strategies include experiments and pilot projects	3
Organization strategies consider the competitor analysis	4
The goals of our competitors are important in the strategy formulation process	4
We are aware of the competitor's strengths and marketing practices	2
People understand clearly where they are placed in the market	2

Source: Interviews

Table 31. Frequency of strategic plans revision

	Frequency	***Percentage***
Annually	5	63%
Semi annually	2	25%
Quarterly	1	12%

Source: Interviews

Table 32. Competitive advantages identified.

Competitive advantage	*Frequency*	*Percentage*
Speed and flexibility in processing loans	5	63%
High quality of human resources	6	75%
High quality of technology	4	50%
Good reputation	6	75%

Source: Interview

Table 33. Method of developing competitive advantage

Method	*Frequency*	*Percentage*
Investing resources in the competitive advantage	8	100%
Creating awareness of the competitive advantage to the clients and prospective clients	6	75%

Source: Interview

Table 34. Factors affecting competitive advantage

Factor	*Frequency*	*Percentage*
Availability of funds	8	100%
Quality of leadership in the organization	6	75%
The external environment	7	88%

Source: Interview

Table 35. Success factors in the sector.

Factor	*Frequency*	*Percentage*
High sustained level of funding	8	100%
Favorable external environment of business	8	100%
Effective infrastructure for ease of operation	7	88%
High capacity IT system for efficient information processing	8	100%
Effective cost control system	6	75%
High loan repayment rate	7	88%

Source: Interview

Table 36. Constraints/ challenges to strategic planning within the sector.

Factor	*Frequency*	*Percentage*
Lack of knowledge on strategic planning	6	75%
Difficulty in raising funds from the donor community	7	88%
High staff turnover from organization to organization within the sector	6	75%

Source: Interview

4.3 Discussions of the study results

4.3.1 Mission, Vision statements

Table 13 indicates the presence of mission and vision statement within 75% of the MFIs under study. These are written and well communicated through out the organizations, through wall pasted boards at strategic positions within the organizations, inside the in-house journals, product brochures, and are mentioned at meetings, induction and training courses. Table 30 also indicates that 75% of the organizations studied have strong visions that they would like to realize, although not all employees are involved in creating these visions. The remaining 25% do not have either mission or vision statements. When asked to give reasons why these aspects are missing, they claimed that they do not attach any importance to them since they are aware of their objectives, their market and their strategies to meet their objectives. 75% indicated that they do have core values, while 25% do not have any core values in place, citing lack of understanding their relevance to their operation.

4.3.2 Objective setting and formulation

Table 21reveals that all 8 MFIs surveyed (100%) set objective at all levels of the organization, and 75% indicated the involvement of the board of directors. The bottom-up approach of objective setting is used by all the MFIs studied. There is also strong evidence in table 30 that departments and units are involved in setting goals and objectives for the whole organization. This is encouraging to note organizations recognize that their destiny involves to a large extend, the contributions of the various departments. The departments come up with their objectives and the onus lies with them to achieve them. All MFIs surveyed indicated, in table 30, that there are no internal hindrances in objective setting. They all agreed that all objectives set are made clear to all employees. In as far as objective formulation is concerned, table 30 reveals that 75% of MFIs studied involve all employees in objective formulation. Objective formulation is an important element in all the organizations studied, and the management puts a lot of emphasis to ensure that this is done effectively all around the organization.

According to table 12, 75% of the MFIs under study have experienced difficulties in achieving their targets while 25% have not experienced any. Asked how they have achieved targets without difficulty, they responded that they have conducted thorough market research and have identified their niche markets and managed to identify its needs, and put in place strategies to fulfill the market needs. The targets are set realistically, looking at the market demands and their internal capacity to meet them. Those who have had difficulties admitted to poor planning at the initial stages. All 8 organizations studied indicated that the Board of Directors is involved 100% in objective process, along with top level managers and department managers.

4.3.3 Strategic Plans and formulation

Table 22 reveals that in all MFIs studied, department heads, top managers, board of directors are all involved in the strategic planning process. Out of the 8, 2 of them involve the expertise of external strategic planning consultants. It is also evident from table 23, that all the 8 allocate 10% or less of their annual budgets to strategic planning expenditure. Table 29 indicates that all the MFIs studied prepare strategies that respond to the changes in the environment. They recognize that their organizations are environment dependant, and therefore their strategic plans must respond to conditions existing within the environment. In table 30, we see that not all employees are involved in formal planning. Majority of the executives interviewed disagreed that informal plans exists in their organizations.

The 8 executives interviewed were asked to describe the strategic management process within their organizations. 2 models emerged in the findings. The first model was prevalent in 75% of the 8 organizations. It involves setting strategies from the department level and presenting it to the top level management and managing director. The various strategies are reviewed at this level and out of them an organizational strategy is established. This is then presented to the Board of Directors for consideration with the budgetary implications to the organization. The Board of Directors approves strategy, the required funds are provided and formulation begins. The strategy is under review from time to time and appropriate amendments are carried out. This model is a strong indicator of the level of involvement of the organization's units in strategic planning.

The second model that prevails in 25% of the organizations under study indicated a slightly different approach. It begins with the board of directors presenting budget allocations for the next operating period to the top level managers and managing director. The top level managers communicate this information to the various departments and tailor strategies that are reflective of the budgets allocated to them. These are then incorporated into an organizational strategy, which is formulated and reviewed frequently. In this model, the strategy planning is strictly dictated by the funding available and no extra provision is made for it if it exceeds the budget. This model was seen among the young organizations, between 3 to 4 years old in the sector.

Table 26 reveals that alternative strategies are present in all 8 MFIs under study. Those involved in setting alternative strategies are top managers and departmental heads. This clearly indicates that the organizations appreciate the fact that strategic plans can be altered due to the action of uncontrollable variables existing within the environment. It is therefore imperative to have alternative strategies in place.

4.3.4 Environment Analysis

Table 24 indicates that 88% of the MFIs studied conduct environment analysis and view it as a strong element of their strategy making process. This process involves top level managers and the services of external consultants. Table 30 also reveals that all the MFIs surveyed agreed to the fact that their organizations examine economic, political and market trends that affect their business. Strategies put in place therefore respond largely to the environment. Organizations are environment dependent and there is a strong need to analyze the environment they operate in, and identify indicators that may affect the direction of their strategy.

4.3.5 Market Analysis

Table 24 indicates that 63% of those studied do conduct market analysis, which involves the top level managers, departments and external consultants. The general response is that the market covered by micro finance organizations is fairly large and the organizations already in existence are not enough to serve them fully. In view of this, 37% MFIs under survey have not put much effort in market analysis because they have already identified their niche market and its patterns are consistent, so they do not deem it necessary to conduct aggressive market analysis.

4.3.6 Competitor Analysis

According to table 24, only 37% of the MFIs studied conduct competitor analysis, and involve top level managers, departments and external consultants in this analysis. Results revealed in table 30, reflect that the MFIs surveyed do not consider competitor analysis, and neither do they regard goals of their competitors as important factors to be considered in their strategy formulation process. The reasons that were given by those who are involved in this practice is that granted that the ground is large for the MFIs to play on, they are not in competition of each other, but rather they are more or less supplementing each others efforts. They each have identified their niches and curved out their strategy, what may seem as competition among them is not anything threatening.

4.3.7 SWOT Analysis

Table 24 reflects that 75% of the MFIs studied undertake SWOT analysis as an important element of their strategic planning process, in which they involve top level managers and external consultants. 25% do not recognize its implications in the strategy planning process. They appreciate the importance of analyzing their strengths and weaknesses, against the opportunities and threats. The existing strengths can be maximized to exploit the opportunities in the environment, and attempt to turn their weaknesses into strengths to overcome the threats in the environment.

4.3.8 Planning time horizon

Table 27 reveals that 75% of MFIs studied implement a planning time horizon of between 1 to 5 years while the remaining 25% implement a planning horizon of between 6 to 10 years. This planning patterns within the sector are influenced to a large extend, by the dependent nature of MFIs on donor funds. The 75% who plan in the short - run, (1 to5 years) are heavily dependent on donor funds for them to be able to plan their operations-. For them, short- run planning is more applicable. The 25% who plan in the long run (6 to10 years) have been in the sector longer and have been able to develop sustained funding to enable them to plan further ahead.

4.3.9 Revision of Strategic Plans

Table 31 reveals that 63% of MFIs understudy review their plans annually, 25% semi annually and 12% review on a quarterly basis. The frequency of revision varies from one organization to another, largely due to different circumstances facing each organization at various stages of the strategy implementation period. These range from variations in human resources, finances, product portfolio as well as external factors emanating from the environment. The strategic plans must therefore be revised to accommodate these variations. However, according to table 30, 50% of MFIs surveyed indicated that reviewing of plans does not involve all members of staff. It mainly involves the top managers and department heads.

4.3.10 Factors considered in choice of strategy

Table 28 exhibits the common factors the MFIs under study consider in their choice of strategy. The level of funds available is the largest factor under consideration. Strategy implementation requires a certain level of finances, and the ultimate choice of strategy to be implemented will largely depend on how much is available. The board of directors in a micro finance organization has a lot of influence when it comes to choice of strategy. Any directive from the board in regards to this issue must be considered by the top management. The external environment also contributes to the ultimate choice of strategy. The level of turbulence within the external environment, ranging from political, economical, technological and physical infrastructure can favor one strategy against another.

The quality of human resources available emerged as a major factor to be considered. Human resources are a major factor towards the implementation of any strategy. If they are sufficiently trained and highly motivated, they will favor the choice of strategy. The capacity of the technology, especially Information Technology (IT), was evidenced as a factor under consideration. The more powerful the IT system is, the faster it is in processing information.

4.3.11 Competitive advantage

All the 8 MFIs under study were able to identify their competitive advantage. The following are the summary of those identified, as evidenced in table 32. Speed and flexibility in processing loans was identified as a major competitive advantage. Clients need an organization that recognizes their need for speed in accessing loans within the shortest time possible. Others identified are high quality human resources, high capacity IT system and a good reputation of the organization.
The competitive advantages identified above are extremely powerful elements, and the individual organizations have investing resources in terms of finances, and training to on the part of human resources, in order to develop them.

4.3.12 Factors affecting competitive advantage of an MFI

Table 34 reveals a number of factors that the MFIs studied share in common. The level of funds available can affect an organizations competitive advantage, especially when it comes to new product development. Clients are always looking for new and competitive products within the sector, and MFIs must either improve on the existing product portfolio, or develop new ones from time to time. External environment of organization can either favor or have a negative effect on an organization's competitive advantage, for instance, economic instability will affect the exchange rate and therefore discourage external lending to MFIs. The quality of leadership at the top can affect the type of decisions made within the organization, and may either impact negatively or positively on the organizations image.

4.3.13 Success factors in the sector

The 8 executives interviewed were able to identify the success factors in the sector, as outlined in table 35. A high sustained level of funding, a favorable external environment of business, an effective infrastructure for ease of operation, a high capacity IT system for efficient information processing, an effective cost control system, a high loan repayment rate by debtors. As discussed earlier, MFIs are donor fund driven to achieve their primary function of lending to small businesses, and there is the strongest success factor. The infrastructure also plays a role, as it will influence the efficiency in covering the market where members are located, especially in the rural areas, where communication can be a hurdle. Speed of information processing is critical in the sector, and eventually translates to how effectively customers are served. The costs that are incurred in serving members can be a matter of concern so a system that monitors these costs is essential to ensure that service is rendered at the lowest cost possible without compromising on quality. Finally, debtor's loan repayments rate should be at its highest to ensure continuity in the lending pattern.

4.3.14 Constraints/Challenges to strategic planning within the sector.

The respondents mentioned a number of challenges to strategic planning within the sector. Lack of knowledge of strategic planning in the sector is another common challenge. Some MFIs are hiring the services of external in strategic planning consultants, to assist them in this area. A high staff turnover within the sector has been witnessed and consequently, the movement of staff from one firm to another slows down the strategy formulation process. Funding raising form the donor community was pointed out as a major challenge. The sector has experienced a significant reduction in funding from donors, which has adversely affected strategic planning.

CHAPTER 5: SUMMARY AND CONCLUSIONS

This chapter will contain a summary of the research findings, the conclusion of the study, recommendations, its limitations and opportunities for further research.

5.1 Summary of research findings

The objective of the study was to establish and document strategic planning practices within the micro finance institutions in Kenya. To achieve this objective, personal interviews were conducted on top managers of 8 out of the 15 targeted MFIs. Data collected was analyzed using tables, frequencies, means and percentages. Majority of those studied were established between 1996 and 2000. Majority of them are locally owned.

5.1.1 Organization vision, mission and core values

There is strong presence of mission and vision statements, as well as core values in majority of the MFIs studied. Mission and vision statements are in writing, mainly as a way of engraving them in minds of all the employees. They guide the employees in understanding the reason for the existence of their organization, and its direction. The presence of mission and vision statements also acts as a strong foundation of strategic planning.

5.1.2 Objectives and objective setting

The bottom-up approach of objective setting is used by all MFIs studied. In this approach, objectives are set from the lowest level of the organization to the top level. This is clear evidence that all levels of the organizations are involved in objective setting. By involving the entire organization, from the bottom to the top in the objective setting process, the onus therefore lies on employees at each level to work towards their set objectives. It gives a sense of ownership to the employees, to contribute to the destiny of the organization.

5.1.3 Written strategic plans, formality in planning and participation

Majority of the MFIs studied, exercise a level of formality in their planning. They all indicated that they have all their strategic plans documented in a business plan, which documents the mission and vision statements, the core values, organizational objectives and the strategic plan. The documentation of plans acts as a point of reference for the management, to remind them of what direction they are steering the organization towards. The strategic plan is clearly outlined, giving details of who is involved at each stage of the strategy. Those involved in planning are department heads top managers, and some involve the input of the board of directors. These MFIs practice formal planning, and strongly indicated that they do not have any informal plans.

5.1.4 Planning time horizon

A large proportion of the MFIs studied have a planning time horizon of 1 to5 years. Due to the constant changes in the environment, they are not able to plan in the long term. The planning time horizon in this sector is heavily dependant on the level of funding available. The MFIs are heavily dependant on external funding, and therefore their planning time will depend on its availability. The few MFIs that have a planning time horizon of 6 to 10 years have been in the industry for a little longer and they have been able to acquire and sustain sufficient levels of funds to plan in the long-term.

5.1.5 Environment scanning

Environment scanning is practices by all MFIs under study as a key element, and it is a continuous exercise. The political, economic, technological, demographic forces in the environment affect the entire operations of these organizations. They keep a close watch on the various opportunities and threat it presents to them and they are able to formulate strategies to tackle them. Those involved in environment scanning are top managers and occasionally involve strategic planning consultants.

5.1.6 Market and competitor analysis

Market analysis is widely practiced by most of the MFIs studied. Those involved are department heads, top managers and sometimes the services of external consultants. Market analysis is conducted to establish the changing tends within their market, and evaluate their products and services to keep up with the market needs, to sustain and increase their market share. Competitor analysis is however not a popular practice among the MFIs under study. The few who conduct this exercise are top level managers. Most of them do not consider competitor activity as a threat to their operations or strategic planning practices and formulation.

5.1.7 Choice of strategy and revision of strategic plans

The choice of strategy in surveyed MFIs depends primarily on the level of finances available to formulate the strategy and the level of turbulence within the external environment. Other notable factors are directives by the board of directors and internal resources. Majority of them revise their strategic plans annually. Factors that trigger revision of plans range from changes in the external environment and variations within the organizations capacities, mainly staffing and finances.

5.2 Conclusions of the study

The survey reveals that formal strategic planning practices are present in majority of the MFIs studied, and therefore regard it as an important element for achieving objectives set out. Strategic plans are written to give them permanence and as a point of reference. Financial stability was evidenced as the key success factor in this sector. This is primarily because the main function of the Micro Finance Institutions is micro/small lending to small entrepreneurs. Therefore, financial sustainability is critical to succeed in this sector. This industry depends heavily on donor funding, and this is the most fundamental element that dictates various aspects of strategic planning, such as planning time horizon, choice of strategy, revision of strategic plans and the competitive advantage of the organizations in this sector.

A large proportion of the MFIs studied conduct environment analysis. They recognize that the environment is dynamic and any changes therein will eventually alter their strategies. Market analysis is also a practiced widely by these organizations, to establish the changes in the market trends and align their products and services to sustain existing markets and increase market share. However, competitor analysis is not a popular practice among the organizations studied. They do not consider competitor activity as a threat to their strategic plans, despite the fact that an increase in growth has been evidenced in this sector. Whether competitor analysis will be an important element to be considered in strategic planning within the sector, is only a matter of time.

5.3 Recommendations

The Micro Finance sector in Kenya has experienced notable growth in the last 8 to 10 years. It is therefore of great importance that MFI managers develop appropriate strategies in order to ensure sustained survival and success of their organization. The environment is quite turbulent and this affects the operations of any organization. The major task of each manager is therefore to ensure the continued existence of their organizations. The goal of strategic management is to build and maintain sustained competitive advantage of any organization (Porter, 1980).

As findings revealed, majority of the MFIs studied are reluctant in conducting competitor analysis. This should be taken more seriously as it's only a matter of time, which the effects of competition will be felt with the steady growth of the industry. Competitor analysis is an important element in strategic planning.

5.4 Limitations of the study

The study experienced some limitations. The biggest limitation to overcome was the high level of confidentiality within the sector. Consequently, very few organizations were willing to participate in the study. The size of the population for this study was relatively small totaling 15, which eventually yielded a sample of 8. Availability of respondents was another limitation the study experienced. The respondents were mainly top managers, who are usually very busy, involved in meetings and travel, so it was not easy for them to make time for an interview. As the person carrying out this research, I experienced logistical constraints. I am based in Kisumu, and I had to therefore to commute to Nairobi where 7 out of the 8 MFIs are based. Only 1 out of the 8 MFIs is located in Kisumu. The appointment dates were spread out through a period of 5 months. This prolonged the research period.

5.5 Opportunities for further research

There exists great opportunities for further studies in this sector, especially in the area of strategy. It would be viable to carry out a study on the strategic planning practices within the donor organizations, operating in Kenya, that extend funding to the micro finance sector. They play a major role in sustaining this sector and thus contributing to the development of the local enterprises. A study in this area would shed some light on their strategic planning practices of these organizations.

There is also an opportunity to carry out a research on the strategic planning practices within the cooperative societies in Kenya. There are numerous cooperative societies catering for the various sectors of the Kenyan economy, such as farmers, doctors, teachers, bankers, the public service and several others. This sector is among the oldest in Kenya, and has grown with time to the level of investing extensively in property, such as real estate. It would be interesting to know whether any formal strategic practices exist in this sector.

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Nancy W. Mutonyi
P.O. Box 2001
KISUMU

Respondents Name
And Address

Dear Respondent,

RE: REQUEST FOR PARTICIPATION IN MY RESEARCH WORK

I am a postgraduate student in the Faculty of Commerce, University of Nairobi pursuing a Master of Business Administration (MBA) degree programme. In order to fulfill the degree requirements, I am currently undertaking a management research project on 'STRATEGIC PLANNING WITHIN MICRO FINANCE INSTITUTIONS IN KENYA (MFIs)'. The study's focus is on strategy formulation within the MFI sector in Kenya.

Your organization is believed to be one of the best managed MFI in Kenya and I would highly appreciate if you would spare some time for me to come to your office for a personal interview with you.

Please be assured that the information you will provide is strictly for academic purposes and the identity of your organization will be treated confidentially. I shall avail a copy of the results to you once the study is complete.

Thank you for your cooperation in advance.

Yours sincerely,

Nancy W. Mutonyi

APPENDIX 2: QUESTIONNAIRE

STRATEGY PLANNING PRACTICES WITHIN MICRO FINANCE ORGANIZATIONS IN KENYA.

This information in the questionnaire will be treated confidentially and will not be used for any other purpose other than academic. The questions have been set in relation to the objectives of the study.

SECTION A: PERSONAL DATA

Please answer the following questions.

1. What is your current job title? ______________________________
2. How long have you been employed by this company? __________________
3. Please check the box that indicates your age bracket

   25 or below ☐

   26 -30 ☐

   31 - 35 ☐

   Above 35 ☐

4. Gender Male ☐ Female ☐
5. How many years of experience do you have in the current industry sector? ___________

SECTION B: ORGANIZATION DATA

1. Name of the firm ______________________________
2. Year when the firm was established ______________________________
3. Company ownership (please tick appropriately)

Predominantly local (51% or more) ☐

Predominantly Foreign ☐

Group Ownership ☐

Individual ☐

4. How many employees does the organization employ?

____

5. Please give details of the products/services you offer.

____

____

6. Have you experienced any expansion since the firm was established? (please tick appropriately)

Yes ☐ No ☐

7. If your response is Yes, please state the ways in which the firm has expanded.

____

____

8. Have you encountered any difficulties in achieving targets? (please tick appropriately)

Yes ☐ No ☐

MISSION, VISION STATEMENT AND CORE VALUES

Does the firm have a Mission Statement? Yes ☐ No ☐

Is it written? Yes ☐ No ☐

How is it communicated throughout the organization?

____

____

Does the firm have a vision statement? Yes ☐ No ☐

Is it written? Yes ☐ No ☐

How is it communicated throughout the organization?

____

____

What are the organizations core values?

____

____

SECTION C: STRATEGY PLANNING PRACTICES FORMULATION.

1. Does the firm set objectives? Yes ☐ No ☐

2. Are objectives set in the different functional areas? (please tick where appropriate)

   Finance ☐

   Operations ☐

   Human Resource ☐

   Organizational ☐

   Others (please specify) ______________________________

3. What is the objective setting approach? (please tick where appropriate)

   Bottom - up ☐

   Top - down ☐

   Interactively ☐

Prepared by special department ☐

Other (please specify) ______________________________

4. What is the percentage of the annual budget goes to strategic planning expenditure? (please tick where appropriate)

0% - 10% ☐

11% - 20% ☐

30% - 40% ☐

50% and above ☐

5. Who is involved in setting company objectives? (please tick where appropriate)

Board of Directors ☐

Executive Committee ☐

The Chief Executive Officer ☐

Functional departments (e.g. Finance, Operations) ☐

Strategic planning department ☐

Top management ☐

Middle/Lower management ☐

External advisors ☐

Others (please specify) ______________________________

6. Describe the strategic planning process in your organization.

____

____

____

____

Who is involved in this process?

____

____

7. How do you decide on the strategies that your organization will implement?

____

____

____

8. Does your organization undertake environmental analysis? Yes ☐ No ☐

Who is involved ?

____

____

____

9. Who is involved in developing alternative strategies?

Board of Directors ☐

Executive Committee ☐

The Chief Executive Officer ☐

Functional departments (e.g. Finance, Operations) ☐

Strategic planning department ☐

Top management ☐

Middle/Lower management ☐

External advisors ☐

Others (please specify) ____________________

10. What is your planning horizon in years?

____

For each of the following questions, please tick appropriately.

Your Organization has developed a strong vision of the future that it would like to realize	T	F
All the people in the Organization are involved in creating this vision	T	F
The elements of the traditional organizational values and old identities are included in the vision	T	F
Your Organization has a strategy that responds to the changing environment	T	F
All employees in your organization are involved in reviewing plans	T	F
Existing plans get reviewed and improved on a regular basis	T	F
Your Organization makes objectives clear to all employees	T	F
Your Organization involves everyone in objective formulation	T	F
Your Organization has written plans and objectives	T	F
Your organization communicates plans and objectives to the whole organization	T	F

For each of the statements below, give your organization a score of between 1 - 5 along the 5 point Likert Scale shown below.

1	2	3	4	5
(Strongly Agree)	**(Agree)**	**(Fairly Agree)**	**(Disagree)**	**(Strongly Disagree)**

Please circle the appropriate score.

We regularly examine the economic, political and market trends which affect our business	1	2	3	4	5
All members of the Organization play formal planning	1	2	3	4	5

Our Organization reacts proactively to trends in the environment	1	2	3	4	5
Our Organization has informal plans	1	2	3	4	5
Departments and units are involved in setting goals and objectives of the whole Organization	1	2	3	4	5
We rely heavily on directives from the head office	1	2	3	4	5
The organizational plans and strategies are very flexible and changes frequently	1	2	3	4	5
The Board of Directors play an important role in the strategy formulation of the organization	1	2	3	4	5
There are internal hindrances to objective setting	1	2	3	4	5
We are open about our intentions and strategies	1	2	3	4	5
Everyone is encouraged to communicate ideas	1	2	3	4	5
Business strategies include experiments and pilot projects	1	2	3	4	5
Organization strategies consider the competitor analysis	1	2	3	4	5
The goals of our competitors are important in the strategy formulation process	1	2	3	4	5
We are aware of the competitor's strengths and marketing practices	1	2	3	4	5
People understand clearly where they are placed in the market	1	2	3	4	5

Please give brief answers to the statements below.

1. Does your organization undertake a SWOT analysis? (Strengths, Weaknesses, Opportunities and Threats)

   ____

   ____

2. Does your organization revise strategic plan? ______________________

   If Yes, how frequently?

   ____

   ____

3. Does your organization conduct competitor analysis?

4. Does your organization conduct market analysis?

5. Can you identify your organizations competitive advantage?

6. How have you developed that competitive advantage?

7. What according to you affects the organization's competitive advantage?

8. What are the factors that determine success in the sector?

9. According to you, what are the challenges/constraints to strategic planning in the Sector?

THANK YOU FOR YOUR COOPERATION

APPENDIX 3: LIST OF MFIs

1. K-REP GROUP
2. K.W.F.T (Kenya Women Finance Trust)
3. WEDCO
4. FAULU KENYA
5. PRIDE KENYA
6. S.M.E.P. (Small and Micro Enterprise Program)
7. BIMAS
8. K.S.T.E. (Kenya Small Traders and Entrepreneurs)
9. K.I.E. (Kenya Industrial Estates)
10. KOLPING INTERNATIONAL
11. UNDUGU SOCIETY
12. KENYA GATSBY TRUST
13. K-ECLOF (Kenya Ecumenical Church Loan Fund)
14. MICRO SAVE
15. MICRO KENYA