THE PROCESS OF STRATEGY FORMULATION IN NON DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAIROBI, KENYA

BY

HELLEN MUKHAYE KHAEMBA

A Research Project Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA), School of Business, University of Nairobi.

NOVEMBER, 2014
DECLARATION

This research project is my original work and has not been presented for award of degree in this or any other learning institution.

Signature………………………… Date…………………………

Hellen Mukhaye Khaemba

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

Signature………………………… Date…………………………

Mr. Eliud O. Mududa

Lecturer, Department of Business Administration,

School of Business,

University of Nairobi
ACKNOWLEDGEMENTS

This project would not have been possible without the cooperation and assistance of many people. To them I owe my gratitude. First and foremost, I would like to thank my supervisor, Mr. Mududa for his time, guidance, positive criticism, assistance and wise counsel during the entire period of undertaking the project.

I also wish to show my gratitude to my friend, Hezron Ndugi who assisted me in data collection and assembling. Thank you for working tirelessly to it successful.

To all those from the Microfinance institutions in Nairobi who made time out of their busy schedules to respond to my interview questions, without your cooperation, the study would not have been possible.

Special thanks to my mother Rose Lusike for being there for me when I needed her and my family for understanding me.
DEDICATION

This project is dedicated First, to my daughter Sasha Lusike and son Mark Mutisya. Second, to my husband Michael Kyalo, and my siblings: Edwin Wekhomba, Rachel Nelima, and last but not least, to my friends and classmates. Their love, support, patience, encouragement and understanding gave me the will and determination to complete my study.
ABSTRACT

In a competitive business environment, corporate firms require strategic thinking and only by formulating and implementing good corporate strategies can they become strategically competitive. A sustainable competitive advantage occurs when a firm evolves and implements a value – creating strategy of which other firms are unable to replicate the benefits or find it too costly to initiate. Corporate strategy includes the commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns. This study employed a descriptive survey. The study population comprised of 34 non-deposit taking microfinance institutions operating in Nairobi, Kenya. The census method was employed since the number was small. Data was collected through interviewer-administered questionnaire that targeted mid-level to senior management positions as informants. The researcher used statistical package for social sciences (SPSS) to analyze the data. The study found out that half of the respondents indicated that the competition facing the organization was fairly high. In addition, the study also found out that majority of the respondents strongly disagree that organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival. The study concludes that the competition facing the organizations was fairly high and that organizations do not identify key success factors hence unable to focus their resources and efforts on these factors which subsequently enhance their chances of survival. The study also recommends that the organization should mobilize sufficient resources since resources constraints jeopardized strategy formulation. Moreover, the study recommends that MFIs should devise a retention strategy which protects its human resources.
# TABLE OF CONTENTS

DECLARATION ......................................................................................................................... ii

ACKNOWLEDGEMENTS ......................................................................................................... iii

DEDICATION ........................................................................................................................... iv

ABSTRACT .............................................................................................................................. v

TABLE OF CONTENTS ......................................................................................................... vi

LIST OF TABLES .................................................................................................................... ix

LIST OF FIGURES .................................................................................................................. ix

LIST OF ABBREVIATIONS ..................................................................................................... xi

CHAPTER ONE ....................................................................................................................... 1

INTRODUCTION ..................................................................................................................... 1

1.1 Background of the Study ................................................................................................. 1

1.1.1 Strategic Management Process .................................................................................. 2

1.1.2 Strategy Formulation Process .................................................................................... 3

1.1.3 Microfinance Institutions ......................................................................................... 4

1.1.4 Non-Deposit Taking Microfinance Institutions ......................................................... 6

1.2 Research Problem ......................................................................................................... 6

1.3 Research Objectives ....................................................................................................... 7

1.4 Value of the Study ......................................................................................................... 8

CHAPTER TWO ....................................................................................................................... 9

LITERATURE REVIEW ......................................................................................................... 9

2.1 Introduction ..................................................................................................................... 9

2.2 Theoretical Framework ................................................................................................. 9

2.2.1 Porter’s Five Forces Model ....................................................................................... 9

2.2.2 Blue Ocean strategy model ....................................................................................... 11

2.2.3 Value Chain Model ................................................................................................. 12

2.2.4 Four Corners Model ............................................................................................... 14

2.2 Strategy Formulation Process ....................................................................................... 15
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2.1 Developing Strategic Direction</td>
<td>16</td>
</tr>
<tr>
<td>2.2.2 Situational Analysis</td>
<td>17</td>
</tr>
<tr>
<td>2.2.3 Setting of Objectives</td>
<td>18</td>
</tr>
<tr>
<td>2.2.4 Strategic Analysis and Choice</td>
<td>19</td>
</tr>
<tr>
<td>2.3 Microfinance institutions in Kenya</td>
<td>21</td>
</tr>
<tr>
<td>2.4 Non-Deposit Taking MFIs in Kenya</td>
<td>23</td>
</tr>
<tr>
<td><strong>CHAPTER THREE</strong></td>
<td>24</td>
</tr>
<tr>
<td><strong>RESEARCH METHODOLOGY</strong></td>
<td>24</td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>24</td>
</tr>
<tr>
<td>3.2 Research Design</td>
<td>24</td>
</tr>
<tr>
<td>3.3 Data Collection</td>
<td>24</td>
</tr>
<tr>
<td>3.4 Data Analysis</td>
<td>25</td>
</tr>
<tr>
<td><strong>CHAPTER FOUR</strong></td>
<td>26</td>
</tr>
<tr>
<td><strong>DATA ANALYSIS, RESULTS AND DISCUSSION</strong></td>
<td>26</td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>26</td>
</tr>
<tr>
<td>4.1.1 Response Rate</td>
<td>26</td>
</tr>
<tr>
<td>4.2 Background Information of the Respondents</td>
<td>27</td>
</tr>
<tr>
<td>4.2.1 Gender of the Respondents</td>
<td>27</td>
</tr>
<tr>
<td>4.2.2 Age of Respondents</td>
<td>27</td>
</tr>
<tr>
<td>4.2.3 Level of education</td>
<td>29</td>
</tr>
<tr>
<td>4.2.4 Year worked in the organization</td>
<td>29</td>
</tr>
<tr>
<td>4.3 Nature of Strategy Formulation Process</td>
<td>30</td>
</tr>
<tr>
<td>4.3.1 Level of Competition Facing the Company</td>
<td>30</td>
</tr>
<tr>
<td>4.3.2 Extent To Which the Following Aspects Affect Strategy Formulation Process</td>
<td>31</td>
</tr>
<tr>
<td>4.4 Challenges in Strategy Formulation</td>
<td>33</td>
</tr>
</tbody>
</table>
4.4.1 The Extent To Which Resource Constraints Jeopardize Strategy Formulation Process ........................................................................................................................................................................... 33

4.4.2 Extent to Which Organizational Aspects Affect Strategy Formulation ................. 34

4.5 Responses to Challenges in Strategy Formulation ........................................................................................................................................................................................................................................... 35

4.5.1 The Extent to Which Organization Adequately Responds to Challenges ............ 35

4.5.2 Responses to Challenges in Strategy Formulation ............................................... 36

CHAPTER FIVE ........................................................................................................................................................................................................................................................................................................... 38

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS ................................................. 38

5.1 Introduction ........................................................................................................................................................................................................................................................................................................... 38

5.2 Summary of Findings ........................................................................................................ 38

5.3 Conclusions ........................................................................................................................................................................................................................................................................................................... 40

5.4 Recommendations ........................................................................................................... 41

5.5 Limitation of the study .................................................................................................... 42

5.6 Recommendations for Further Studies ......................................................................... 42

REFERENCES ........................................................................................................................................................................................................................................................................................................... 43

APPENDICES ........................................................................................................................................................................................................................................................................................................... i

Appendix (i): Questionnaire ................................................................................................. i

Appendix (ii): List of Non-Deposit Taking MFIs In Nairobi .................................................. v

Appendix (iii): Letter of Introduction ................................................................................... vii
## LIST OF TABLES

Table 4.1: Response Rate ........................................................................................................................................... 26

Table 4.2: Level of education ..................................................................................................................................... 29

Table 4.3: Level of Competition Facing the Company ................................................................................................. 31

Table 4.4: Extent to Which the Following Aspects Affect Strategy Formulation Process ........................................ 32

Table 4.5: The Extent To Which Resource Constraints Jeopardize Strategy Formulation ........................................... 33

Table 4.6: Extent to Which the Following Aspects Affect Strategy Formulation ............................................................. 34

Table 4.7: The Extent to Which Organization Adequately Responds to Challenges .................................................... 35

Table 4.8: Responses to Challenges in Strategy Formulation .......................................................................................... 36
LIST OF FIGURES

Figure 4.1: Gender of the Respondents ................................................................. 27

Figure 4.2: Age of Respondents ............................................................................. 28

Figure 4.4: Year worked in the organization ......................................................... 30
LIST OF ABBREVIATIONS

DTMs : Deposit Taking Microfinance

ICT : Information Communication Technology

IFC : Internation Finance Corporation

MFIs : Microfinance Institutions

NDTMF : Non-deposit Taking Microfinance

NGOs : Non Governmental Organizations

SWOT : Strengths, Weaknesses, Opportunities and Threat

SPSS : Statistical Package For Social Sciences

UNDP : United Nation Development Programme

USAID : United State Aid Inter-Agency Development

WESO : Women Enterprise Solutions

HR : Human Resources
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking industry in which the micro-finance institutions operate is dynamic and competitive such that sound strategies are critical for their survival and prosperity. Strategy formulation and implementation are the pillars of strategic management. Strategic management is the process in which firms formulate and implement strategies to achieve long term goals and sustained competitive advantage (Pearce and Robinson (2007). The strategies enable a firm to create a fit between the organization and its environment in order to adapt and thrive.

Microfinance refers to the small-scale financial services that involve mainly credit and savings services to the poor, Robinson (2001). Microfinance has evolved to also include the provision of insurance, housing and investment services for low-income people. Globally, it is providing an avenue for the poor to enrich their livelihoods and to have a greater impact on their countries’ economic growth. However, despite the exponential growth of the microfinance industry, its demand remains largely untapped. Micro and small-scale enterprises (SMEs) have generated a demand for credit and savings services that has resulted in the formation of over 100 microfinance organizations, half of which are non-governmental organizations (NGOs) practicing some form of micro lending across Kenya. The micro-finance movement is growing at a very rapid rate in Kenya and this growth has been accompanied by a related increase in competition among micro-finance institutions, with many areas being served by multiple MFIs.

Globalization has also introduced new dynamics into the MFI industry leading to interdependent relationships between countries, organizations and individuals. A number of powerful forces,
including crumbling trade barriers, fast-paced technological advances, declining telecommunication and transport costs, international migration, and a highly mobile investment community, have driven the international trend toward globalization. Due to globalization, some international MFIs have entered the Kenyan market and this has resulted into not only increased competition but also become a threat to the local MFIs. These factors have necessitated the formulation of strategies among MFIs as a necessity for survival.

1.1.1 Strategic Management Process

Strategic management underlines the importance of managers with regard to strategy. Gerry et al (2008) observed that strategy do not happen by themselves. It involves people especially the managers who decide and implement strategy. This emphasizes importance of human element of strategy. Strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organizational-wide implication. It is therefore necessary to make decisions and judgments based on the conceptualization of difficult issues. Managers from all departments must participate in strategic management process to achieve the objectives and mission of the organization. Anthony (2008), suggests that strategic management is about understanding the strategic position of the organization, future strategic choices and converting them into action. Therefore, top, middle and low level managers must take part in strategic planning process to achieve a unit of direction within the organization.

Strategic management process enables organizations to come up with strategies which when executed enable them to respond quickly to challenges facing them. Porter (1980) argues that strategy is about creating a fit by which the organization is able to carry out its operation effectively. Through strategic planning, an organization is able to establish its long-term plans, the required resources, both financial and non-financial, and the target market it intends to
operate. Strategic management is an art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives, David (2003).

Strategic management refers to a systematic approach for responding to strategic changes, Ansoff and McDonald, (1990). It involves understanding the strategic position of an organization, making strategic choices and managing strategy in action. However, Gerry et al (2008), imply that in practice the elements of strategic management do not follow this linear sequence- they are interlinked and feedback on each other. They argue that the environment where the organization operates is constantly changing hence the need of having a definite plan to cater for the changes. This will enable the organization to have a strategic position in which it will be able to exploit new opportunities as they arise and deal effectively with the environmental threats to minimize their impacts to the organization. Managing of strategy is therefore paramount to the firms that want to have competitive edge over their rivals.

1.1.2 Strategy Formulation Process

Strategy formulation is designed to guide Chief Executives in defining the business their company is in, the aims it seeks and the means it will use to accomplish these aims, Pearce and Robinson (2005). The first process in any strategy formulation is the diagnosis stage which involves performing a situation analysis of the internal environment of the organization, including identification and evaluation of current mission, strategic objectives, strategies, and results, plus major strengths and weaknesses, analyzing the organization's external environment, including major opportunities and threats and identifying the major critical issues.

Diagnosis stage helps a firm to clearly understand the industry they are in and understand itself in relation to other competing organizations, Johnson and Scholes (2002). The second process in strategy formulation is the formulation strategy and this has to do with focus on a company’s
internal resources and capabilities with an aim to the development of a realistic and effective strategy. To assure success, the organization must determine its vision and define its mission. While vision is the firm’s ideal future, the mission statement is concerned with the present. These two provide direction and scope for the firm’s activities.

Company mission is the fundamental, unique purpose that sets an organization apart from other firms of its type and identifies the scope of its operations in product and market terms, Pearce and Robinson (2005). It reflects the firm’s self-concept, indicates the principal product or service areas and primary customer needs the company will attempt to satisfy. The mission describes the product, market and technological areas of emphasis for the business. The final stage in formulation is strategic analysis and choice; here the alternative strategies are evaluated before making the ultimate choice. The choice made must be consistent with the resource capabilities of the organization and “fits" between resources plus competencies with opportunities, and also fits between risks and expectations existing in the organization.

1.1.3 Microfinance Institutions

The microfinance institutions have been established to provide financial services to small and micro-enterprises that have long been discriminated against by the commercial banks. They are perceived to be risky hence the banks are shying off from advancing mainly credit facilities to them. It is defined by www.investorwords.com, as a financial institution specializing in banking services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offerstransaction services for amounts that may be smaller than the average transaction feescharged by mainstream financial institutions,(www.investorwords.com).
Kenya has a relatively well-developed microfinance sector, which comprises of organizations that can be grouped into the informal system and the formal system. The informal financial sub-system has been in existence even before the colonial days and is common among the people with no access to formal financial system in Kenya, (www.afraca.or.ke). This sector is characterized by limited regulation, involves mainly saving transactions, membership based and is not subsidized. Within the informal financial institutions, there are four types that involve; financial arrangements among relatives and friends, traditional moneylenders and rotating savings and credit associations and accumulating savings and credit associations.

The formal microfinance system comprises of organizations or institutions, which provide financial services and receive subsidies in different forms. The origins of formal subsided microfinance institutions in Kenya can be traced to the mid-1950s with the establishment of the Joint Loan Board Scheme by the then colonial government. Since then, the government, NGOs and other institutions have established many microfinance institutions. However, major microfinance development started in the 1980s when a number of NGOs introduced alternative credit delivery mechanisms for the poor that consisted of small amounts of loans without the requirement of tangible collaterals. The organizations range from small charitable units operating in limited geographical areas to large institutions, covering vast tracts of the country and carrying out a variety of development and welfare activities.

The formal microfinance organizations are categorized into two, namely; deposit taking MFIs and non-deposit taking MFIs. The deposit taking microfinance are controlled by the microfinance Bill of 2006 which was implemented in 2008 .They are controlled and regulated by the Central Bank of Kenya. Licensed deposit taking microfinance institutions include; Faulu Kenya Limited, Kenya Women Finance Trust Limited, SMEP among others.
1.1.4 Non-Deposit Taking Microfinance Institutions

The Non-deposit taking microfinance institutions are not regulated by the Central Bank of Kenya but through the various Acts under which the MFIs operate. They do not take deposits from members of the public but only provide credit facilities to them. Some of the existing non-deposit MFIs includes Platinum Credit Ltd, Ngao Ltd, Blue limited etc. The credit facilities they offer are of higher interest rates unlike banks due to the risk involved in giving credit without security. This enables them to recover their money earlier without huge losses. Loans are usually for a short-term basis with quick approvals and maturity that has proved good to the many clients who have unforeseen needs ranging from weddings, school fees, funeral expenses, and hospital bills. The Ministry of Finance is in the process of discussing the best way forward for regulating the non deposit taking microfinance businesses

1.2 Research Problem

Despite the success of microfinance initiatives in Kenya, a significant percentage of the microfinance enterprise potentials have not been reached due to a number of factors. The potential that exists for the micro finance reveals an untapped opportunity among the micro finance sector. To exploit this opportunity, as well as serve a large number of poor households, microfinance institutions need to develop alternative ways of sustaining their activities and increasing their profitability levels. Both the deposit taking and non-deposit taking microfinance have contributed the success in micro financing. The majority of the local non-deposit microfinance institutions in Kenya started as NGOs, and hence receive money from donors as their major source of funding. While such donations have made an enormous contribution to microfinance development, attempts to scale up funding from these traditional sources have been an uphill task. It is limited in amount and unavailable for many institutions. The constant challenges that
confront local non-deposit taking MFIs have brought into focus the survival and sustainability of non-deposit taking MFIs in Kenya. This has been exacerbated by the global financial crisis that has reduced donor funding not only to NGOs in Kenya, but also to non-deposit taking microfinance institutions. This in no doubt has brought into question the role of strategic management among the local non-deposit taking MFIs in Kenya.

Various studies have been carried out to show the prominent role that strategic management plays in microfinance management. Some of the studies conducted include; a study on strategic choices of survival within a changing environment on microfinance institutions by Maru (2004), a study on strategic human resource management practices adopted by microfinance institutions in Nairobi by Rutere (2010), a study on strategic planning practices and challenges involved in strategic planning in microfinance in Kenya by Kahindi (2008), and a study on the overall sustainability of microfinance institutions in Kenya by Macharia, (2011) which concluded that strategic formulation is a key ingredient to the sustainability of MFIs in Kenya. However, these studies have focused on all microfinance institutions as a whole with none focusing solely on non-deposit taking MFIs. Therefore this study seeks to answer this research question: what are critical issues and nature of strategy formulation process among the Non-Deposit taking MFIs within Nairobi?

1.3 Research Objectives

This study sought to address the following objectives;

i. To determine the process of strategy formulation process in Non-Deposit taking MFIs.

ii. To determine the challenges faced by MFIs in their strategy formulation process.
iii. To determine how MFIs respond to the challenges they face during strategy formulation process.

1.4 Value of the Study

The government is an important key stakeholder in the microfinance industry. Because of the important role that the government plays not only as an operator of microfinance institutions but also through its role in regulation and controlling of microfinance institution in Kenya, the findings of the study will not only help inform policy of government in controlling MFI’s but it will also help in informing practice of the government in the sector.

Microfinance Association of Kenya is a body that brings together all microfinance organization in Kenya and hence the study will provide the association with findings that will help the association understand some of the challenges that their members are facing in strategy formulation. This will help the association in establishing measures that can help in addressing some of the challenges that their member organization are facing.

Microfinance institutions in general and non-deposit taking microfinance institutions in particular will find the study beneficial as it will help them have an insight into some of the challenges that there are facing in their strategy formulation process. This will provide a general framework for non-deposit taking MFI’s to undertake corrective measures that can address the challenges to enable them operate not only successfully but also competitively.

Besides the stakeholders, the study will also help by contributing knowledge in scholarly world through the publications in peer reviewed journals. This will help by increasing knowledge that will help in more understanding of the non-deposit taking MFI’s not only in Kenya but in sub-Saharan Africa.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the literature review that provides relevant theoretical orientation to the study. It identifies the research issues to be addressed. In summary, this section is discussed in terms of theoretical review, and empirical review.

2.2 Theoretical Framework

The study will be guided by the following: Porter’s five forces model, blue ocean strategy model, value chain model, dynamic capability theory, and four corners model.

2.2.1 Porter’s Five Forces Model

This framework was developed by Michael Porter’s (1980). Five Forces analysis comprises five sections: power of suppliers, power of buyers, threat of new entrants, threat of substitutes, and rivalry among firms (competition within the industry). These forces can be used in strategy formulation as views on how the competitive position and strategy of a firm is evaluated. Suppliers can command power over an industry by introducing price increases or by reducing quality level. Powerful suppliers can therefore introduce cost elements from which firms in the industry cannot recover, resulting in low profitability. The power of buyers comes in the form of demand for low prices and high quality, as well as inducing competition amongst firms. The threat of new entrants that bring new capacity and lower prices heavily influence a company’s strategy within the industry, similar to how the threat of substitute products draws part of demand away from the products that the industry produces.
The actual potential of these entrants depends on many factors, such as barriers to entry, which are important issues in the analysis. All the five forces compete for a fixed pool of resources, and this competition determines the ability of any individual firm to earn profits in the industry. Porter views the competition as a zero-sum game; thus, more of the outside forces become stronger, creating a weaker strategic position for the firms within the industry (Werther & Chandler 2011). Porter (1980), also states that the competitive situation of a firm is set primarily by competition within the industry itself. This industry rivalry depends on economic and industry structure; hence, various industries can have significantly different levels of internal competition. The outside forces that influence such competition are relatively significant because they highlight the different abilities of the firms to respond and counter these forces (Porter 1980).

Porter’s strategy model is constrained by three factors that stem from the definition of industry and competition as a zero-sum game. First, the idea that a customer or supplier’s advantage is always gained at the expense of a firm dictates that an organization should always stay ahead of its stakeholders to create competitive advantage. Second, the five forces are missing several influential factors and stakeholders in the analysis, such as governments or local communities. Third, the framework does not differentiate firms on the basis of their characteristics, and therefore leaves unanswered questions as to the strategy analysis that is based on a company’s internal aspects, drivers, and organizational orientation (Werther & Chandler 2011). However, despite these limitations, the model helps management to evaluate and assess the current market environment and provides foundation for the further research and intelligence gathering needed to formulate future strategy.
2.2.2 Blue Ocean strategy model

The Blue Ocean model starts from the fact that a firm must eliminate competition with its traditional rivals because this is the only way that a firm can survive and succeed in the future. There are two conceptual frameworks: red oceans and blue oceans. Red oceans are existing known domains and markets, whereas blue oceans are those which are unknown or non-existent until they are discovered or created. In red oceans, the boundaries of different areas are clearly defined and commonly accepted. The rules for competition are known,(Kim & Mauborgne 2005). When competing in the red ocean, a firm focuses on obtaining a large a share as possible of existing market demand.

Where numerous products and services are made available in the market, it becomes crowded and the possibilities for profit and growth are limited. Products become commonplace and competition colours the sea red. Conversely, a blue ocean is characterized by a potential, unutilized market place, the creation of new demand, and potential for highly profitable growth. Some blue oceans are created at locations highly distant from current red oceans, but many are created by expanding current industry boundaries. Competition becomes irrelevant because no predefined rules exist (Kim & Mauborgne 2005). The blue ocean strategy analysis constitutes two frameworks: the strategy profile and the value innovation. A strategy profile analyses the current nature of the market space; that is, in which areas competitors are investing and what the competition factors are.

Value graphs easily plot the relative position of competitors and the differences in companies’ strategic choices (Kim & Mauborgne 2005). However, a firm’s transition into a growth path does not happen through comparison with competitors or by offering products or services that slightly differ from those offered by competitors. Changes in strategy profile necessitate a shift in focus
from competitor benchmarking and examining demands from existing customers to addressing the needs of non-customers. To succeed in shifting its focus, an organization can use the value innovation framework. To create new value graphs and eliminate the need to choose differentiation and cost focus, firm may answer the following questions: (1) What commonly accepted factors can be eliminated? (2) What factors should be minimized in relation to the standard approach? (3) What factors should be highlighted more strongly in the industry? (4) What new factors should be created in the industry? The first two questions assist organization to minimize the cost structure, and the last two facilitate focus on how to build and create new value for customers (Kim & Mauborgne 2005).

This model is helpful to organizations because it enable companies to outplay the competition. Furthermore, it provides a series of tools as guidance for companies to create unique strategies to create and generate their own uncontested markets. Besides, the process of discovering blue ocean markets is not about predicting business trends; it is about leading managers who are able to reorganize market realities in a fundamentally new way.

2.2.3 Value Chain Model

Porter (1985) proposed the value chain as a means by which business actions that transform inputs could be identified (i.e. value chain stages). He also proposed that stages in the value chain be explored further for interrelationships and common characteristics. Porter argues that this could lead to opportunities for cost reduction and differentiation. Value Chain model is an analytical tool designed to enable a firm understand how primary and support activities can be used to create value. This is a starting point for understanding and evaluating company strengths and weaknesses, as well as internal capabilities. Value is the benefit that a customer is willing to pay for in purchasing a product or service (Pitts & Lei 2006). A value chain shows all the
activities needed to create value for customers, either through a product or service. The Value Chain tool therefore presents an opportunity to compare this ‘chain-of-events’ value chain with that of competitors, given valuable input for strategy analysis (Pitts & Lei 2006).

Brown (1997) pursues a conventional approach to the value chain but does add emphasis to the need for an industry perspective: The value chain is a tool to disaggregate a business into strategically relevant activities. This enables identification of the source of competitive advantage by performing these activities more cheaply or better than its competitors. Its value chain is part of a larger stream of strategic activities carried out by other members of the channel-suppliers, distributors and customers. Scott (1998) argues that all firms, whether industrial or services have a value chain, that is, each part requires a strategy to ensure that it drives value creation for the firm overall. For a piece of the value chain to have a strategy means that the individual managing is clear about what capabilities the firm requires to deliver effective market impact.

Value chain activities are divided into primary and support activities. Primary activities are directly linked to the product or service that a company wants to sell to its customers. It basically involves transforming raw materials into consumer benefits. Support activities serve as a supplement to primary activities as a company carries out a set of tasks. Together, these make up a firm’s total value chain and its foundation for competitive advantage. For the purpose of strategy analysis, Value Chain analysis helps delineate different tasks and sequential activities, enabling strategic analysis of the competitiveness of each phase compared with that of rival companies. The analysis characteristics or evaluation criteria include cost, quality, and cycle time.
2.2.4 Four Corners Model

The four corners model was proposed by porter (1980), and focuses on understanding competitors’ strategies as well as for the ‘self-analysis of a company’s own strategy based on four diagnostic components: future goals, current strategy, assumptions, and capabilities. Understanding these components provides insight into competitors’ future strategies. Each component has a set of questions and characteristics for the purpose of analysis. The future goals are derived from the important view that firms have different goals or objectives and thus pursue different strategic moves. For example, a competitor’s financial goals reflect its current situation or whether it is looking to implement change. Leadership team background provides indications of goal setting and rewarding practices, and external constraints can signify whether a company can be more sensitive to certain players in the industry, such as government regulators (Porter 1980).

This perspective is based on the competitor’s assumptions about a rival firm and competitor’s assumptions of the industry and the other firms in it. This component comprises of questions and characteristic elements such as perceived industry forces and a company’s relative position in the industry (market share). Similarly, beliefs about competitor goals have influence, as well as regional, cultural, and national differences, that may be seen as orientation towards product quality at the expense of unit cost (Porter 1980). The third component of the analysis framework is a competitor’s current strategy, which may be explicit or implicit. The aspects to consider here are value creation path, business investment focus, and the overall statements of a firm’s future direction.

The capabilities component is the fourth that determines the competitor’s ability to respond to strategic moves or industry changes. This section can feature a wide list of characteristics to be
used as bases for analysis. Some examples are marketing skills, overall education of the employees, company patents and copyrights, or the financial strengths of a competitor. This framework can employed to design strategy topology (the offensive and defensive scenarios of the competitor or if company self-assessment, it can focus on creating strategic positioning scenarios for the company (Porter 1980).

2.2 Strategy Formulation Process

The business environment rapidly changes presenting the organizations with opportunities and threats. To ensure survival and success, firms have to develop capability to manage threats and exploit the emerging opportunities. Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. Strategy formulation is the entire management function of establishing organizational direction, setting objectives and devising a managerial game plan for the organisation to pursue, Thompson and Strickland (2007). It is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals.

This process is essential to an organization’s success because it provides a framework for the actions that will lead to the anticipated results. Strategy formulation activities help organizations identify their key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival. Strategy formulation involves development of a company’s vision and mission, analysis of the external environment to identify opportunities and threats, analysis of the internal environment to identify the firm’s weakness and strength, establishing long-term objectives, generating alternative strategies and choosing particular strategies to pursue, (David 2003).
2.2.1 Developing Strategic Direction

The corporate governance framework provides the formal requirements and boundaries within which strategy is being developed. According to Johnson and Scholes (2002), it is important to understand the expectations of different stakeholders in more detail and the extent to which they are likely to seek influence over an organization purposes and strategies. The mission and the vision statements are the pillars of strategic direction to the firm. Johnson and Scholes (2002), define the vision statement as a statement that outline the desired future state of the organization. It is the inspiration around which a strategist might seek to focus the attention and energies of members of the organisation. The vision statement is a roadmap of an organization’s future providing specifics about the kind of organization management is trying to create. It is a description of the desired outcome that inspires, energizes and helps in the creation of a mental picture of an organization’s target.

The mission statement outlines organization’s future course and serves as a guiding concept Thompson and Strickland (2007). This statement specifies the end result that the organization is seeking to accomplish, for whom and how it will go about doing so. It communicates the essence of the organization to the members, stakeholders and to the public. Pearce and Robinson (1994) indicate that the mission statement of an organization depicts the unique purpose that set it apart from its peers and identify the scope of its operation in terms of the product offered, market served and technological areas in a way that reflects the values and priorities of the strategic decision markers. A mission statement is a generated statement of the overriding purpose of an organization, Johnson and Scholes (2002). It can be thought as an expression of its raison d’être. Substantial disagreement within the organization or with stakeholders as to the mission, may give rise to real problems in resolving the strategic direction of the organization. The mission
statement describes the firm’s main activities and the position it wishes to attain in its industry. It is also a statement that outlines key values of the organization and its main intentions and aspirations.

Owing to the competitive business environment in which they are operating, MFIs must anticipate customer’s future needs if they are to avoid the risk of losing business to competitors. This means MFIs leaders must anticipate their future needs and position the organization properly to fulfill those needs. It is the responsibility of organizational strategic leaders to consider the external and internal business environment and makes sense of complexity when creating the organization’s vision, mission and strategies, and direction the organization should take.

2.2.2 Situational Analysis

Situational analysis is critical during strategy formulation as it clarifies the context within which an organization is operating, Thompson and Strickland (2007). It entails an analysis of the external and internal environments including evaluation of past performance, which culminates in identification of strengths, weakness, opportunities and threats (SWOT) and shareholders’ analysis. This leads to the understanding of the firms present situation and to some extent its background. The external environments can be analyzed in various ways, Pearce and Robinson (2005); PESTEL framework, macro-environment analysis, micro-environment analysis, SWOT analysis and strategic group analysis. These analyses entail understanding of the firm’s remote, industry and business environments and present the firm with opportunities, threats as well as a firm’s resource inputs and output. On the other hand, the analysis of the firm’s internal environment focuses on internal variables such as the value chain activities, resource capabilities,
skills competences, structural design and culture. The internal analysis provides information about the firm’s strengths and weaknesses.

The external environment is turbulent and offers a source of threats and opportunities. The essence of strategy formulation is to relate the company to its operating environment, Porter(1980). The goal of competitive strategy, for example, is to find a position in the industry where the company can best defend itself against competitive forces or use them in its advantage. He further advances that the competitive forces can be categorised into five levels namely, suppliers power, threat of substitutes, buyers power, threat of new entrants and rivalry among existing firms. Proper scanning of the external environment is therefore necessary for the organisations to establish their strategic position.

MFIs, just like other organizations, ought to carry out a situation analysis to determine ‘where are we now’ so as to identify its own strengths and weaknesses as they relate to external opportunities and threats. It is thus a way of helping MFIs to select a position in that environment based on known facts. Every MFIs, after considering both its internal strengths and weaknesses and the external environmental influences that affect it, is in position to formulate an effective strategy because failure to understand the external and internal capabilities may lead to complete failure.

2.2.3 Setting of Objectives

Objectives are statements of specific outcomes that are to be achieved, Johnson and Scholes (2002). Objectives - both at corporate and business level, are often expressed in financial terms. They could be expression of desired sales, profit levels, rate of growth, dividends levels, share valuations, market share or customer service. The objectives are not helpful unless they are
capable of being measured and achieved. There may be objectives that are important but difficult to quantify or measure. For example, an objective such as ‘to be a leader in technology’ may be highly relevant in today’s technological environment but it may become absurd if it has to be expressed in some measurable way. Long-term objectives represent the results expected from pursuing certain strategies. When organization-wide objectives are broken down into specific targets for each organizational unit and lower-level managers are held accountable for achieving them, a result-oriented builds throughout the organization.

Nowadays, it is almost impossible to conceive that MFIs, or even a non-profit organization or profit making would have no clear goals to achieve during a specific period of time. The objectives enable MFIs to progress towards a better position that can be fully aligned with the vision and mission. Successful MFIs should set goals that support the business mission and recognize employees for a job well done.

2.2.4 Strategic Analysis and Choice

The strategy formulation process eventually culminates in management’s evaluation of the strategic alternatives that it must choose to follow. Research indicates that management undertakes evaluation techniques to initiate a move toward the implementation of a course of action. The nature of the strategic decision making process has been demonstrated to impact the viability of the choice made. The process of evaluation in organizations is largely undertaken for two primary reasons, namely, political and pragmatic (Marios, 2006). The former relates to the provision of the means for the justification of actions to other organizational participants and the latter speaks to the intention to seek out the most appropriate path of action. Evaluation alternatives include analytical, bargaining, subjective and judgmental tactics, (Nutt, 1984).
At this point, the potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives. Strategic choices are concerned with decisions about an organization’s future and the way in which it needs to respond to the many pressures and influences it faces. Johnson and Scholes (2002). The consideration of future strategies must be mindful of the realities of translating strategy into action that can be significant constraints on strategic choice. Strategic choices involve the options for strategy in terms of both the direction in which the strategy might move and the methods by which strategies might be pursued. Gerry et al. (2008). For instance, an organization might have to choose between alternative diversification moves, for example entering into new products and markets. As it diversifies, it has different methods available to it such as developing a new product itself or acquiring an organization already active in the area.

There are a number of tools that help managers in making strategic choices. Johnson and Scholes (2002); Examples include the Growth Share Matrix which is applied to strategic business units, balanced in a public sector portfolio which is concerned with the organization’s ability to serve effectively by providing perceived value for money with the resources it has, the directional policy matrix which categorizes business units into those with good prospects and those with less good prospects. These techniques provide a way of considering appropriate corporate-level strategies given the positioning of the business units. The organisation’s actual strategy usually turns out to be both more or less than the planned strategy as new strategy features are added and others are deleted in response to newly emerging conditions.

MFIs business environment is characterized by constant changes, meaning that they have to adapt quickly to stay in business. Economic, technological, social and political factors redefined the way organizations operate. They are dependent on the environment for their inputs and
outputs. Therefore changes in the environment trigger changes within the organization. Strategic responses are hence required in any organization to enable it to cope with the turbulence in the environment. Therefore, MFIs should choose strategic responses that allow them to change the firm’s strategic behaviors to assure success in transforming future environment.

2.3 Microfinance institutions in Kenya

These institutions have been established to provide financial services to small and micro-enterprises that have long been discriminated against by the commercial banks. They are perceived to be risky hence the banks shy off from advancing mainly credit facilities to them. They are set up with the main purpose of poverty eradication through the provision of microcredit facilities to the SMEs. The microfinance Act of 2006 classifies the MFIs into three groups namely; the Deposit-taking institutions such as banks, Non-Deposit taking institutions and informal organizations that are supervised by an external Agency other than the government. This categorization has made the MFIs to specialize in the provision of specific product(s) to their clients that has led to the overall growth of microfinance sector in Kenya. The typical microfinance product is a very small loan and usually short term of less than one year.

These institutions not only provide credit, but also offer savings platform, insurance covers and fund transfers. By offering to the lower tier of the population pyramid, the economy develops, more jobs are created, and this helps in reducing the rate of poverty in the country. A large proportion of the Kenya’s MFIs is dominated by the NGOs which provide microfinance services on noncommercial basis with government entities. MFIs face stiff competition from formal financial institutions that provide similar services such as commercial banks and Non-Bank Financial Institutions. These development has brought about an environment in which survival of the MFIs depends on their ability to effectively compete in the market. This calls for
application of superior strategies to counter the competition. To remain competitive and profitable, the MFIs are embracing the ICT as a strategic means of enhancing productivity and operational efficiency.

According to the Central Bank of Kenya the Microfinance Act, 2006 and the Microfinance Regulations issued thereunder sets out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Microfinance Act became operational with effect from 2nd May 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision. The Act enables Deposit Taking Microfinance Institutions licensed by the Central Bank of Kenya to mobilise savings from the general public, thus promoting competition, efficiency and access. It is, therefore, expected that the microfinance industry will play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the Kenyans. Regulations for Non Deposit Taking Microfinance Institutions are yet to be put in place. The Ministry of Finance is in the process of discussing the best way forward for regulating the non-deposit taking microfinance businesses.

The Association of Microfinance Institutions (AMFI) is a member-based institution, registered in 1999 under the Societies Act by the leading MFIs in Kenya, with the mandate of promoting the growth and sustainability of Kenyan microfinance industry. The main reasons for its establishment were the felt need for MFIs to have a common voice; to lobby government for favorable policies; to share information and experiences and to link up and network with both local and international actors. AMFI currently has 59 member institutions serving more than 6,500,000 poor and middle class families with financial services throughout the country.
Membership ranges from large, mature MFIs to relatively smaller and rural MFIs, wholesalers and retailers as well as micro-insurance providers

2.4 Non-Deposit Taking MFIs in Kenya.

These institutions do not accept deposits from their clients but provide microcredit facilities to them. Their financial arrangements with their clients are not highly formalized. They promote economic empowerment to their members by providing affordable credit to start and run businesses and advise their members on the best practices in managing successful and profitable enterprises. For example, the Women Enterprise Solutions (WESO) is a non-deposit taking microfinance institution (MFI) that was formed after the realization that the way to mitigate the challenges faced by the Kenyan woman in every facet of her life was to empower her economically (https://kenyaloans.com/weso/).

The majority of the Non-Deposit Taking MFIs obtain their funding from commercial banks, government agencies, churches, local NGOs and International NGOs and Aid Agencies such as USAID, IFC, UNDP and World Vision. Their primary focus is to develop and provide innovative, affordable, accessible and pro-poor credit and other business development services to their clients who would want to start and/or grow their businesses, while maintaining a profitable institution operating on sound business principles. This is geared towards transformation of their members’ lives to a life of affluence, influence, purpose, and dignity (https://kenyaloans.com/weso/).
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter dealt with the description of the methods applied in carrying out the research study. This chapter is organized under the following sections: research design, data collection method and data analysis.

3.2 Research Design
This research problem was tackled through the use of a descriptive survey. Cooper and Schindler (2003), concurred that a descriptive design portrays an accurate profile of persons, events, or accounts of the characteristics of a particular individual, situation or group. Kothari, (2003) preferred descriptive design because it ensures complete description of the situation, making sure that there is minimum bias in the collection of data. Surveys allow the collection of large amount of data from a sizeable population in a highly economical way. It allows one to collect quantitative data which can be analysed quantitatively using descriptive and inferential statistics (Saunders et al., 2000).

3.3 Data Collection
The study population comprised of all non-deposit taking microfinance institutions operating in Nairobi, Kenya. The study population comprised of thirty four non-deposit taking MFIs listed in appendix (ii). Census method was employed since the number was small.

Data was collected through interviewer-administered questionnaire and targeted individuals in mid-level to senior management positions as respondents. These were staff members who were involved in day-to-day management of the organization and were thus well conversant with the
operations, goals, strategies and plans of the organization. In instances where some MFIs did not have a designated head of strategy, the person charged with overseeing strategy implementation was chosen as the respondents.

The questionnaire aimed at collecting information about the critical issues in strategy formulation. Both qualitative and quantitative data was collected. The process was initiated with an identification of key individuals within each organization who provided an in-depth point of view, based on their personal experience of the MFI's response and strategy formulation process over the past three years, 2009-2012. Secondary sources of data for this research included research journals, textbook, company documentation, press releases, and industry reports.

3.4 Data Analysis

The data was collected, checked for completion, coded and analyzed using statistical package for social sciences (SPSS). A coding system was used to find a quick and easy way to organize the data so that it can be analyzed. Codes are used to identify particular responses (Robson, 1993). After coding the data, it was entered into the computer for analysis. The analysis was done in terms of descriptive statistics such as frequencies, mean scores and standard deviations. Other statistics such as the inferential statistics was also used to interpret the data. The results were presented using tables, graphs and charts for ease of understanding. This allow for the interpretation of the findings generated and a recommendation from the findings.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of data analysis. Data analysis is organized according to the objectives of the study and is presented as follows: First, a summary of respondent’s background information is presented. This is followed by analysis of each of the relationships according to the research objectives.

4.1.1 Response Rate

The researcher selected 34 MFI's from which respondents were choosen and questionnaires were distributed to them. The respondents included senior management and heads of departments.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Per centage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
<td>30</td>
<td>88.20</td>
</tr>
<tr>
<td>No response</td>
<td>4</td>
<td>11.80</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014

Table 4.1 shows that 30 out of 34 sampled respondents filled in and returned the questionnaire contributing to 88.20%. This commendable response rate was made a reality by the researcher effort to avail herself and remind the respondent to fill-in and return the questionnaires.
4.2 Background Information of the Respondents

This section sought to find the gender of the respondents, age of the respondents, level of education, and number of year worked in the organization.

4.2.1 Gender of the Respondents

The study sought to enquire the gender of the respondents. The findings are indicated in the figure below.

Source: Research Data, 2014

Figure 4.1: Gender of the Respondents

According to the findings, 73% of the respondents were male while 27% were female.

4.2.2 Age of Respondents

The study sought to establish the age of the respondents. The findings are indicated in the figure below.
Source: Research Data, 2014

Figure 4.2: Age of Respondents

The study shows that 45% of the respondents were 31-35 years of age while 24% were category 36-40 years of age. Both category 26-30 year and 41-45year posted 8% followed by those aged 21-25 with only 5%. However, 10% of the respondents were above 45 years.

4.2.3 Level of education

The study sought to find out the level of education of the respondents from MFIs. The findings are indicated in the figure below.
4.2.3 Level of education

Table 4.2: Level of education

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school certificate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High school certificate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data, 2014

Table 4.3 shows that 60% of the respondents were undergraduate while 40% had attained postgraduate education. However, Primary school and High school certificate level posted no responses.

4.2.4 Year worked in the organization

The study sought to find the number of years the respondents had worked in the MFI. The findings are indicated in the table 4.2 below.
Figure 4.3: Year worked in the organization

Regarding the number of years the respondents had worked in the organization, figure 4.2 indicates that more than half of the respondents had worked in the organization for between 0-5 years while 23.30% had worked in the organization between 5-10 years. Further, 13.3% and 10% of the respondents had worked in the organization for 10-15 years and above 16 years respectively.

4.3 Nature of Strategy Formulation Process

This section sought to establish the level of competition facing the company and various organizational aspects that affects strategy formulation process.

4.3.1 Level of Competition Facing the Company

The research sought to find out the level of competition in the business environment and the findings are as presented below.
Table 4.3: Level of Competition Facing the Company

<table>
<thead>
<tr>
<th>Level of Competition</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>11</td>
<td>36.70</td>
</tr>
<tr>
<td>Fairly high</td>
<td>15</td>
<td>50.00</td>
</tr>
<tr>
<td>Moderate</td>
<td>3</td>
<td>10.00</td>
</tr>
<tr>
<td>Extremely low</td>
<td>1</td>
<td>3.30</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014

Table 4.3 indicates that 50% of the respondents indicated that the competition facing the organization was fairly high, 36.70% indicated that the organization faced very high competition. However, 10% and 3.30% indicated that the organization faced moderate and extremely low competition respectively. This indicates that MFIs should devise appropriate strategies if they were to remain competitive.

4.3.2 Extent To Which the Following Aspects Affect Strategy Formulation Process

The study sought to find out the extent to which the following organizational aspects affect strategy formulation process. A scale of 1-5 was used. The scores “Strongly Disagree” and “Disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ Strongly Disagree ≤ 2.5). The scores of “Neutral” were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ Neutral ≤ 3.5). The score of “agree” and “Strongly agree” represented duration of two months and above. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6 ≤ Strongly Agree ≤ 5.0).
### Table 4.4: Extent to Which the Following Aspects Affect Strategy Formulation Process

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>All stakeholders are informed of and identify with the company’s vision and mission</td>
<td>1.83</td>
<td>0.874</td>
</tr>
<tr>
<td>There are opportunities to develop strategic thinking capabilities within the organization.</td>
<td>2.30</td>
<td>1.489</td>
</tr>
<tr>
<td>Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival.</td>
<td>1.57</td>
<td>1.165</td>
</tr>
<tr>
<td>The organization’s mission statement outlines future course and serves as a guiding concept.</td>
<td>2.70</td>
<td>1.179</td>
</tr>
<tr>
<td>Highly competitive culture of the company enhances the organizational ability to achieve good results</td>
<td>3.60</td>
<td>17.516</td>
</tr>
<tr>
<td>Organization evaluate long term impact of the organization’s strengths and weaknesses.</td>
<td>3.37</td>
<td>1.245</td>
</tr>
<tr>
<td>Organizational activities are defined through a set of clear objectives and goals</td>
<td>1.90</td>
<td>1.196</td>
</tr>
</tbody>
</table>

**Source:** Research Data, 2014

From the study findings in table above, the majority of the respondents strongly disagreed that organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival (1.57), all stakeholders are informed of and identify with the company’s vision and mission (1.83), organizational activities are defined through a set of clear objectives and goals (1.90), and that there are opportunities to develop strategic thinking capabilities within the organization (2.30), as represented by respective mean score on the continuous likert scale.
Moreover, majority of the respondents were of neutral opinion that the organization’s mission statement outlines future course and serves as a guiding concept (2.70), and that organization evaluate long term impact of the organization’s strengths and weaknesses (3.37) on the continuous likert scale. However, majority of the respondents agreed that highly competitive culture of the company enhances the organizational ability to achieve good results as shown by a mean score of 3.60 on the continuous likert scale.

4.4. Challenges in Strategy Formulation

This section covers the extent to which resource constraints jeopardise strategy formulation and the organizational aspects affects strategy formulation process.

4.4.1 The Extent To Which Resource Constraints Jeopardize Strategy Formulation Process

The study sought to find out the extent to which resource constraints jeopardise strategy formulation and the findings are as shown in the table 4.5 below.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatest extent</td>
<td>5</td>
</tr>
<tr>
<td>Great extent</td>
<td>14</td>
</tr>
<tr>
<td>Some extent</td>
<td>6</td>
</tr>
<tr>
<td>No response</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
</tr>
</tbody>
</table>

Source: Research Data, 2014

Table 4.5 illustrates that 46.7% of the respondents agreed to a great extent that the resource constraints jeopardized strategy formulation while 20% the respondents agreed to a some extent that the resource constraints jeopardized strategy formulation. However, the respondents who
agreed to greatest extent and No response that the resource constraints jeopardise strategy formulation tied at 16.7%.

4.4.2 Extent to Which Organizational Aspects Affect Strategy Formulation

The study sought to find out organizational aspects relating to challenges that affect strategy formulation process. A scale of 1-5 was used. The scores “Strongly Disagree” and “Disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ Strongly Disagree ≤ 2.5). The scores of “Neutral” were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ Neutral ≤ 3.5). The score of “agree” and “Strongly agree” represented duration of two months and above. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6 ≤ Strongly Agree ≤ 5.0).

Table 4.6: Extent to Which the Following Aspects Affect Strategy Formulation

| Employees may leak out the strategy to the competitors or leave the firm before the strategy is finalized. | 4.53 | 1.50 |
| External environment is turbulent and offers a source of threats and opportunities | 4.13 | 0.90 |
| Senior leaders tend to see strategy formulation as the preserve of a few senior managers | 4.10 | 2.15 |
| The organization set unrealistic targets and expectations | 2.10 | 0.96 |
| Organization have the capacity to adapt and to support and enable organizational change | 3.97 | 1.27 |

Source: Research Data, 2014

The majority of the respondents strongly agreed that employees may leak out the strategy to the competitors or leave the firm before the strategy is finalized, external environment is turbulent and offers a source of threats and opportunities, senior leaders tend to see strategy formulation as the preserve of a few senior managers, organization have the capacity to adapt and to support and
enable organizational change; this is shown by mean scores of 4.53, 4.13, 4.10 and 3.97 respectively on the continuous likert scale. However, the respondents strongly disagreed that the organization set unrealistic targets and expectations as shown by a mean score of 2.10.

4.5 Responses to Challenges in Strategy Formulation

This section covers issues relating to extent to which organization adequately responds to challenges and various responses adopted by the MFIs to counter the challenges.

4.5.1 The Extent to Which Organization Adequately Responds to Challenges

The study sought to find out the extent to which organization adequately responds to challenges and the findings are as shown below.

Table 4.7: The Extent to Which Organization Adequately Responds to Challenges

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greatest extent</td>
<td>2</td>
<td>6.70</td>
</tr>
<tr>
<td>Great extent</td>
<td>17</td>
<td>56.70</td>
</tr>
<tr>
<td>Some extent</td>
<td>5</td>
<td>16.70</td>
</tr>
<tr>
<td>No extent</td>
<td>2</td>
<td>6.70</td>
</tr>
<tr>
<td>No response</td>
<td>4</td>
<td>13.30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data, 2014

Table 4.7 illustrates that 56.7% of the respondents agreed to a great extent that organization adequately responds to challenges during strategy formulation while 16.70% the respondents agreed to No extent that organization adequately responds to challenges during strategy formulation. Moreover, 6.7% of the respondents agreed to a greatest extent and to No extent that
organization adequately responds to challenges during strategy formulation However, 13.30% the respondents did not give response.

4.5.2 Responses to Challenges in Strategy Formulation

This study sought to find out the responses to challenges in strategy formulation process. A scale of 1-5 was used. the scores “Strongly Disagree” and “Disagree” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ Strongly Disagree ≤ 2.5). The scores of “Neutral” were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ Neutral ≤ 3.5). The score of “agree” and “Strongly agree” represented duration of two months and above. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6 ≤Strongly Agree ≤ 5.0).

Table 4.8: Responses to Challenges in Strategy Formulation

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization has developed reward and recognition systems that are aligned to the strategy in order to support formulation</td>
<td>4.53</td>
<td>1.51</td>
</tr>
<tr>
<td>Employees’ participation and involvement create sense of ownership of the strategy hence reduces conflict of interest</td>
<td>3.46</td>
<td>1.40</td>
</tr>
<tr>
<td>Employees’ are equipped with skills that enhance creativity and innovation through training</td>
<td>3.56</td>
<td>1.25</td>
</tr>
<tr>
<td>The potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives</td>
<td>3.90</td>
<td>0.84</td>
</tr>
<tr>
<td>Top management shows commitment to the process through availing resources and other supports</td>
<td>3.66</td>
<td>1.15</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014
The majority of the respondents strongly agreed that top management shows commitment to the process through availing resources and other supports (3.66), the potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives (3.90), and that organization had developed reward and recognition systems that are aligned to the strategy in order to support formulation (4.53) as indicated by respective mean scores. In addition, the study revealed that most of the respondents were of neutral opinion that employees’ are equipped with skills that enhance creativity and innovation through training as indicated by a mean score of (3.46).
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings; the conclusion and the recommendations of the study.

5.2 Summary of Findings

The following were the summary of the research findings upon which the conclusion and recommendations of the study were made.

The study found out that majority of the respondents were male; and belonged to age category 31-35 years of age. Besides, the study found out that majority of the respondents had attained at least undergraduate education. However, Primary school and High school certificate level posted no responses. Regarding the number of years the respondents had worked in the organization, the study found out that more than half of the respondents had worked in the organization for between 0-5 years.

Moreover, the study found out that half of the respondents indicated that the competition facing the organization was fairly high. The study also found out that majority of the respondents strongly disagree that organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival, all stakeholders are informed of and identity with the company’s vision and mission, organizational activities are defined through a set of clear objectives and goals, and that there are opportunities to develop strategic thinking capabilities within the organization on one hand. On the other hand, the study found out that majority of the respondents agreed that highly competitive culture
of the company enhances the organizational ability to achieve good result. However, majority of the respondents were of neutral opinion that the organization’s mission statement outlines future course and serves as a guiding concept and that organization evaluate long term impact of the organization’s strengths and weaknesses.

A sizeable number of the respondents agreed to a great extent that the resource constraints jeopardise strategy formulation. Besides, the study found out that majority of the respondents strongly agreed that employees may leak out the strategy to the competitors or leave the firm before the strategy is finalized, external environment is turbulent and offers a source of threats and opportunities, senior leaders tend to see strategy formulation as the preserve of a few senior managers, organization have the capacity to adapt and to support and enable organizational change. However, the respondents strongly disagreed that the organization set unrealistic targets and expectations.

Lastly, the study found out most of the respondents agreed to a great extent that organization adequately responds to challenges during strategy formulation. However, 13.30% the respondents gave no response. Further, the study found out that majority of the respondents strongly agreed that top management showed commitment to the process through availing resources and other supports, the potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives, and that organization had developed reward and recognition systems that are aligned to the strategy in order to support formulation. In addition, the study found that most of the respondents were of neutral opinion that employees’ were equipped with skills that enhance creativity and innovation through training.
5.3 Conclusions

The following conclusions were made based on study findings:

The study concludes that the competition facing the organizations was fairly high. The study also concludes that organizations do not identify key success factors hence unable to focus their resources and efforts on these factors which subsequently enhance their chances of survival, all stakeholders were not informed of and identity with the company’s vision and mission, organizational activities were defined through a set of clear objectives and goals, and that there were no opportunities to develop strategic thinking capabilities within the organization. Moreover, the study concludes that highly competitive culture of the company enhances the organizational ability to achieve good result.

The study also concludes that the resource constraints jeopardised strategy formulation. In addition, the study concludes that employees may leak out the strategy to the competitors or leave the firm before the strategy is finalized, external environment is turbulent and offers a source of threats and opportunities, senior leaders tend to see strategy formulation as the preserve of a few senior managers and that organization have the capacity to adapt, support and enable organizational change. However, the study also concludes that the organization do not set unrealistic targets and expectations.

Lastly, the study concludes that that organization adequately responds to challenges during strategy formulation. The study, further concludes that top management shows commitment to the process through availing resources and other supports, ensuring the potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives, and that organization had developed reward and recognition systems that are
aligned to the strategy in order to support formulation. In addition, the study concludes that most employees’ were not fully equipped with skills that enhance creativity and innovation through training.

5.4 Recommendations

From the findings of the study the following recommendations were made:

The study recommends that since competition facing the organizations is fairly high, the organization’s strategy committee should identify key success factors through focus their resources and efforts on these factors which subsequently enhance their chances of survival and ensuring that all stakeholders are informed of and identify with the company’s vision and mission. In addition, the study recommends that organizational activities should be defined through a set of clear objectives and goals and by promoting competitive culture which enhances the organizational ability to achieve good result.

The study also recommends that the board of directors and top management should mobilize sufficient resources since resources constraints jeopardised strategy formulation. Moreover, the study recommends that HR department should devise retention strategies which protects its human resources from its competitor thus prevent employees from leaking out the strategy to the competitors or leaving the firm before the strategy is finalized. However, study the recommends that senior leaders ought to include all stakeholders in strategy formulation as opposed to a few senior managers. Besides, the organization’s management must not set unrealistic targets and expectations which demotivate employees implementing them.

Last but not the least, the study recommends that top management should shows commitment to the process through availing resources and other supports, ensuring the potential strategies are
scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives, and that organizations HR and line managers should develop reward and recognition systems that are aligned to the strategy in order to support formulation. In addition, the study recommends that employees to be fully equipped with skills that enhance creativity and innovation through training.

5.5 Limitation of the study

The researcher encountered challenges during data collection since some respondents were not co-operative and did not believe that the research was purely academic while others had tight work schedules and therefore had no time to complete the questionnaire. Besides, the researcher conducted interviews that required a large amount of time to collect information from the respondents. Further, the researcher faced budget constraints since a lot of money was required to move around, engage research assistant for data collection, and typing and printing the projects. Time constraint was another limitation due to the fact the researcher was involved in full-time employment.

5.6 Recommendations for Further Studies

This study focused on the process of strategy formulation in non-deposit taking microfinance institutions in Nairobi, Kenya. It is therefore recommended that similar study to be conducted with a relatively bigger sample and incorporating other MFIs operating outside Nairobi. The study also recommends a study to be conducted to establish the impact of effective strategy formulation on the strategy implementation in non-deposit taking microfinance.
REFERENCES


McGraw-Hill Irwin


www.centralbank.go.ke/

www.investorwords.com/

www.kenyaloans.com/weso/
APPENDICES

Appendix(i): Questionnaire

SECTION A: BACKGROUND OF THE RESPONDENT

1. Name of the Microfinance Institution: ______________________________________

2. Name of the respondent ……………………………………………………………….Optional

3. Gender

   Male [ ]  Female [ ]

4. Position of the respondent in the organization____________________

5. Indicate your age

   21-25 yrs [ ]  26-30 yrs [ ]  31-35 yrs [ ]

   36-40 yrs [ ]  41-45 yrs [ ]  Above 45 yrs [ ]

6. What is your education level? (Tick as applicable)

   Primary school certificate [ ]  High school certificate [ ]  Undergraduate [ ]

   Post graduate [ ]  Others-specify [ ]

7. Years of service/working period (Tick as applicable)

   0-5 yrs [ ]  5-10 yrs [ ]

   10-15 yrs [ ]  Above 16 yrs [ ]

SECTION B:NATURE OF STRATEGY FORMULATION PROCESS

8. Please indicate the level of competition your company is facing now

   Very high [ ]  Fairly high [ ]  Moderate [ ]

   Low [ ]  Extremely low [ ]
9. To what extent do you agree with the following statement as it relate to strategy formulation process? 1-Strongly Disagree  2-Disagree 3-neutral 4-Agree  5-Strongly agree

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>All stakeholders are informed of and identify with the company’s vision and mission</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii</td>
<td>There are opportunities to develop strategic thinking capabilities within the organization.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii</td>
<td>Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv</td>
<td>The organization’s mission statement outlines future course and serves as a guiding concept.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v</td>
<td>Highly competitive culture of the company enhances the organizational ability to achieve good results</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi</td>
<td>Organization evaluate long term impact of the organization’s strengths and weaknesses.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii</td>
<td>Organizational activities are defined through a set of clear objectives and goals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>viii</td>
<td>Other(Specify) .....................</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION C: CHALLENGES IN STRATEGY FORMULATION

10. To what extent do you think resource constraints jeopardise strategy formulation process?
   
   Greatest extent [ ] great extent [ ] some extent [ ] No extent [ ]

11. To what extent do you agree with the following statement as it relate to challenges in strategy formulation process? where: 1-Strongly Disagree  2-Disagree  3-neutral  4-Agree  5-Strongly agree.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Employees may leak out the strategy to the competitors or leave the firm before the strategy is finalized.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii</td>
<td>External environment is turbulent and offers a source of threats and opportunities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii</td>
<td>Senior leaders tend to see strategy formulation as the preserve of a few senior managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv</td>
<td>The organization set unrealistic targets and expectations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>v</td>
<td>Organization have the capacity to adapt and to support and enable organizational change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi</td>
<td>Other (Specify)..................</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION D: RESPONSES TO CHALLENGES IN STRATEGY FORMULATION

11. Do you think the organization adequately respond to challenges during strategy formulation?

Greatest extent [ ] great extent [ ] some extent [ ] No extent [ ]

12. To what extent do you agree with the following statement as it relate to responses to challenges in strategy formulation process? Where: 1-Strongly Disagree 2-Disagree 3-neutral 4-Agree 5-Strongly agree

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td></td>
<td>Organization has developed Reward and recognition systems that are aligned to the strategy in order to support formulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii</td>
<td></td>
<td>Employees’ Participation and involvement create sense of ownership of the strategy hence reduces conflict of interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii</td>
<td></td>
<td>Employees’ are equipped with skills that enhance creativity and innovation through training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv</td>
<td></td>
<td>The potential strategies are scrutinized and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vi</td>
<td></td>
<td>Top management shows commitment to the process through availing resources and other supports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix (ii): List of Non-Deposit Taking MFIs In Nairobi

1. AAR Credit Services
2. Agakhan Foundation Microcredit Programme
3. Biashara Factors
4. Blue Limited
5. Canyon Rural Credit Ltd
6. Eclof Kenya
7. Focus Capital Limited
8. Fountain Credit Services Ltd
9. Fusion Capital Ltd
10. Greenland Fedha Ltd
11. Indo Africa Finance
12. Jitegemea Credit Scheme
13. Juhudi Kilimo Co.Ltd
14. KADET
15. K-rep Development Agency
16. Micro Africa Ltd
17. Molyn Credit Ltd
18. Musoni Kenya Ltd
19. Nationwide Credit Kenya Ltd
20. Ngao Credit Ltd
21. One Africa Capital Ltd
22. Opportunity Kenya
23. Pamoja Women Development Programme
24. Platinum Credit Limited
25. Renewable Energy Technology Assistance Programme (RETAP)
26. Rupia Ltd
27. Samchi Credit Limited
28. Select Management Services Ltd
29. SISDO
30. Springboard Capital
31. U&I Microfinance Ltd
32. Women Enterprise Solutions
33. Yehu Microfinance Trust
34. Youth Initiatives – Kenya (YIKE)

Source: http://www.amfikenya.com/Membership
Appendix (iii): Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegram: "Yarobi", Nairobi
Telex: 22095 Varsity

DATE: 07/08/2014

TO WHOM IT MAY CONCERN

The bearer of this letter, HELLEH MUKHAYE KHEREMBA

Registration No. DG1 73244 2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS