

**BUSINESS PROCESS IMPROVEMENT AND OPERATIONAL  
EFFICIENCY OF MICROFINANCE INSTITUTIONS IN KENYA**

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**BY**

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## **DECLARATION**

This Research project is my original work and has not been presented in any other university or institution of higher learning for examination or academic purposes.

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This Research project has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

This project is dedicated to my beloved mother Kuso Kediye Abdi for her prayers, support and encouragement since my childhood. My special thanks goes to my lovely Wife and children for their patience support and understanding they have accorded me

## **ACKNOWLEDGEMENT**

I acknowledge the power of God, the maker, and the provider of knowledge for enabling me to complete my Masters in the right spirit. My acknowledgements go to my project supervisor, Dr. X.N. Iraki my moderator who have sharpened me to make this work a success thank you both for wise guidance and to the University of Nairobi for offering me the opportunity to study and all my lecturers who contributed in the various disciplines, I owe you my gratitude

I cannot forget the positive influence of my classmates as a source of inspiration throughout my study and for assisting me in sourcing for information and materials for this project. To you all, God bless.

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## **ABBREVIATIONS & ACRONYMS**

<b>BPI</b>	Business process improvement
<b>BPR</b>	Business process reengineering
<b>CBK</b>	Central Bank of Kenya
<b>DTMs</b>	Deposit Taking Institutions
<b>MDIs</b>	Micro Finance Deposit-Taking. Institutions
<b>MFIs</b>	Microfinance institutions
<b>MSEs</b>	Micro and Small Enterprises
<b>PI</b>	Process improvement
<b>QC</b>	Quality control
<b>RBV</b>	Resource based view
<b>SPSS</b>	Statistical Package for Social Scientists
<b>TQM</b>	Total Quality Management
<b>WFMS</b>	Work flow Management System

## ABSTRACT

Unlike the financial institutions in the financial sector, the large majority of MFIs globally have not been sustainable. They have depended on donor funding, subsidies, and gifts from governments, to remain in operation because they were unable to cover their costs, and were not self-sufficient. One study exposed that 30 percent of local microfinance schemes working in 2011 were either no more extended in operation or were no longer loaning capital two years after the fact. Microfinance institutions in Kenya face a myriad of challenges that greatly affect their performance. These are the high cost of giving out Micro-loans; the cost of processing so many micro-loans; institutional inefficiencies; poor distribution system of Microfinance institutions and lack of customized solutions for the poor thus some MFIs grope in the dark as they try to understand the varied needs of micro entrepreneurs. The objective of the study was to determine effect of business process improvement practices on operational efficiency of microfinance institutions in Kenya. A descriptive research design was used in this study. The target population for this study included the 12 microfinance institutions who are members of Association of Microfinance Institutions and registered with CBK as at December 2015. The researcher utilized a survey questionnaire to collect data which was analysed using descriptive statistics. In addition, multiple regressions were used to measure the strength of the relationship between the dependent and independent variables. Tables and other graphical presentations as suitable were utilized to introduce the data gathered for simplicity of analysis. Based on the research findings, the study concludes that organizational strategy realignment affects operation efficiency of microfinance institutions in Kenya. The study concludes that microfinance organizations usually review strategies in order to enhance operational efficiency within all departments. Research also concludes that technology adoption affects operational efficiency of the microfinance institutions in Kenya. The study further revealed that employee empowerment influences the operation efficiency of the microfinance institutions. Majority of microfinance institutions have embraces personal performance review and incentive bonuses which have been proved for empowering staffs in the organization are more efficient. The research finally concludes that organization restructuring affect operation efficiency of microfinance institutions in Kenya. It was again concluded that management staffs in microfinance institutions don't consider increasing the number of resource, when capacity is not sufficient. Basing on the finding and conclusions, the study also recommends that managers of microfinance institutions should improve their operations by adopting new and advanced technology in the organization operation. This study further recommends to managers of microfinance institutions to consider staff training and development in their institutions in order to strengthen some attitudes that add to efficient service. Management staffs of microfinance institutions should also consider increasing the number of resource, when capacity is not sufficient in their organization.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The twenty-first century worldwide market and business is portrayed by rivalry driven by innovative developments, customer necessities, unpredictable money market and trade liberalization. The changed economy unleashed the aggressive strengths and immensely changed the business situation that has brought about hyper rivalry (Agarwal, 2010). This opposition is centered around the accessible constrained assets, clients and also the market performance, in their division of operations. Even with sensational turbulence in the earth, an undertaking's capacity to adjust, react, and adjust itself to the business need is basic for its survival and achievement (Delen and Dalal, 2008). To remain significant and beneficial, associations are taking diverse choices that guarantee they are contending positively on the worldwide front. Consistently, directors are compelled to take radical choices on creative techniques in a flighty corporate world.

Organizational procedures today are extraordinarily unique in relation to they were 100 years prior. At the point when procedures get to be old and wasteful and can't convey comes about that they were initially intended to, they can't adapt up the business elements in nature in which they work, they should be updated or supplanted (Reijers, 2006). Prepare upgrades are industry particular. This study concentrates on the money related segment. Kenyan banks are without further ado under extreme rivalry to enhance proficiency and change managing an account benefit conveyance into systems enveloping customary branches, mechanized tellers, phone keeping money and the Internet. Since no format exists to guide this change, they have tested by process reengineering, shutting failing to meet expectations branches and

presenting new and less expensive methods for managing an account (Kumbhakar & Lovell, 2013). A normally utilized proportion that brokers use to gauge the general cost viability (or the operational productivity) of an association is the cost/wage proportion (cost/salary proportion or, as frequently named in the US, the effectiveness proportion). This is a measure that comprehensively communicates the aggregate working expenses brought about by an association as a rate of its working salary. The expenses of keeping the bank would incorporate support of existing frameworks or operational techniques that are frequently of no incremental esteem to an association so these ought to be commoditized and kept as low as could be allowed to expand effectiveness. The expenses of changing the bank could incorporate expenses for new items, or new conveyance channels for existing ones, and these expenses can be connected to the salary that they create (Kumbhakar & Lovell, 2013).

The changing flow of money related institutions and market constrained players at all levels to enhance their business associations. The budgetary part operations and capacities which is plan to meet rising difficulties of bank combination, slicing working expense, outsourcing, portfolio speculation, installments and settlement framework call for inventive managing an account rehearses through Business handle change. This is to empower the budgetary foundations to consolidate key creative client plots with a specific end goal to connect the administration hole inalienable in Kenyan monetary part. Be that as it may, BPI execution in Kenya is joined by uncertainty, doubt, and dread of losing the norm (Shin & Jemella, 2012). The managing an account area in Kenya has among the numerous players, microfinance foundations. Microfinance foundations work in a focused budgetary division where directors need to coordinate hierarchical assets with promoting openings in the

outside environment. While MFIs may have had any kind of effect in Kenya, their execution and supportability in the long haul stays flawed.

### **1.1.1 Business Process Improvement**

Business process improvement is an approach that expects to build the viability and productivity of business processes that give yield to inside and outside clients. Since Business process improvement turned into a part of the standard of business improvement, a wide range of terms in writing were identified with the improvement of business processes (Harry and Schroeder, 2006). Organizations utilize BPI to keep pace with the changing business environment which implies adjusting their business processes to determined innovative, hierarchical, political and different changes. Along these lines, it is not astounding that enhancing business processes was —number one need among the main ten business needs in 2009 in a Gartner study covering more than 1,526 Chief Information officers. As the interest for enhancing business processes expanded after the business process reengineering (BPR) wave in the mid 1990s procedures, systems, and devices were created for leading BPR ventures (Shin and Jemella 2012).

Numerous organizations have experienced a process improvement (PI) program and have found that the use of process improvement rehearses has prompted to huge improvements in operational territories (Bateman, 2015). The reception of process improvement strategies has been enlivened by the sensational improvements exhibited by such methods. Quality improvement means optimizing the process capability and the quality control measures to ensure that the process yields higher revenue at lower costs, with enabled employees and satisfied customers. Dalmariset *al* (2007) upheld methodological works on, including the utilization of particular devices and measurable strategies in the plan, administration, and change of process, which expect

to diminish the inescapable variety that happens from —common causes and extraordinary causes underway.

The hypothetical embodiment of the Deming way to deal with TQM concerns the formation of an authoritative framework that encourages participation and learning for encouraging the usage of process administration hones, which, thus, prompts to constant change of procedures, items, and administrations and in addition to representative satisfaction, both of which are basic to consumer loyalty, and at last, to firm survival. Juran(2011) contends that the principle quality issues in the frameworks of exercises coordinated at accomplishing pleased clients, enabled workers, higher incomes, and lower expenses are because of administration as opposed to specialists. The achievement of value requires exercises in all elements of a firm.

It has ended up basic for the monetary administrations part to diminish operational expenses by enhancing operational efficiencies and adequacy. Budgetary administrations organizations can enhance by lifting their nature of administration, decreasing process durations, enhancing efficiency, lessening waste and dispensing with adjust (Kumbhakar & Lovell, 2013).

### **1.1.2 Operational Efficiency**

Productivity in the financial area has been characterized and examined in various studies including : (i) scale proficiency, which alludes to relationship between the level of yield and the normal cost; (ii) Scope effectiveness, which alludes to relationship between normal cost and creation of broadened yield assortments; and (iii) Operational effectiveness, a wide idea some of the time alluded to as x-productivity, which measures deviation from the cost proficient boondocks that

speaks to the most extreme achievable yield for the given level of information sources. With reference to different definitions, wastefulness is accordingly a multifaceted idea with a few implications relying upon the viewpoint in which it is utilized (Andriof et al., 2012).

Scale and degree economies for instance, are accomplished from the organizations' yield extension bringing about an expansion in the business' yield. Also, that lessens expenses of creation therefore prompting to the solid mechanical outside economy. Douglas and Erwin (2010) contend that extension economies happen where it is less expensive to deliver assortments in a plant than in independent plants, and this is the idea from which managing an account combination stems.

A portion of the key drivers of effectiveness is robotization and process change. Enhancing hierarchical proficiency and adequacy unavoidably includes handle change. Throughout the most recent 25 years, an assortment of business process change (BPI) strategies and structures has been proposed and once in a while connected (Dalmaris et al., 2007). Biazzo and Bernardi (2013) contended that, today administrators are excited and for sure enthusiastic about procedures in light of the potential outcomes for change that they offer as far as both diminishing the fracture and compartmentalization of work and enhancing the limit with regards to horizontal coordination and correspondence.

### **1.1.3 Microfinance Institutions in Kenya**

The enactment of Microfinance deposit taking institutions Act by the parliament of Microfinance Act 2006 gave birth to Microfinance Deposit Taking Institutions (DTMs) which are allowed to mobilize and intermediate savings from the depositors (Mutua 2013). Robinson (2011) asserts that micro finance in its exceptionally current



terms alludes to the extensive scale, productive arrangement of miniaturized scale back administrations, little investment funds and advances, to monetarily dynamic needy individuals by reasonable monetary foundations at the neighborhood level close homes and work spots of the customers in both rustic and urban territories.

Microfinance organizations (MFIs) world over have been recognized as basic foundations to countries mission for answers for the advancement challenge (Shin & Jemella 2012). A push to modernize and elevate operations of microfinance organizations offers ascend to Deposit Taking Microfinance Institutions (DTMs) which are controlled under MDI Act 2006 by Central Bank of Kenya (CBK, 2006). As per CBK (2006) and Otero (2012), the usage of the arrangement was regarded critical for investment funds activation and appropriate administration of open stores by executing essential least level of prudential controls. Mutua (2013) contends that prudential necessities empower DTMs to oversee assets legitimately which at last enhances the productivity and credit costs.

The Microfinance Act 2006 of Kenya, trying to streamline the operation of the MFIs in Kenya, addresses authorizing arrangements, least capital prerequisites and least fluid resources, accommodation of records to the Central Bank, supervision by the Central Bank, and breaking points on advance and credit offices. The authorized MFIs called the store taking MFIs are authorized MFIs to acknowledge open supports and Contributes to destitution mitigation and in the meantime consent to the necessities of money related segment wellbeing and soundness. The Deposit taking MFIs are managed under the Bill to give reserve funds, credit, and other money related administrations to MSEs and to low-pay family units in both rustic and urban regions. The MFIs which are for the most part financed through concessionary credits from worldwide advancement establishments have been saved the high cost of assets that

banks have endured taking after progressive loan cost increments by the Central Bank of Kenya.

Microfinance in Kenya has encountered extensive change in the course of recent years, developing from a youngster industry ruled by a couple giver and church-based NGOs to an energetic division progressively determined by commercialization. Microfinance foundations are presently perceived as authentic suppliers of money related administrations and as the way to opening financial development for business visionaries and poor families, particularly in provincial ranges. Unarguably, the most imaginative and promising activities to expanding access to money related administrations for devastated and standard Kenyans is finished by microfinance establishments (CBK, 2006).

Operational proficiency angle for microfinance part is a standout amongst the most essential viewpoints that must be considered by their administrations with a specific end goal to gain solid financial performances. According Wheelock and Wilson (2015) efficiency is the ability of management of the organizations to manage its operating costs in a more efficient manner through cost rationalization. It involves the process of allocating the available resources to viable investments. It can likewise be referred as what happens when the right blend of individuals, process, and innovation meet up to improve the profitability and estimation of any business operation, while driving down the cost of routine operations to a wanted level (Shawki, 2008). The final product is that assets beforehand expected to oversee operational assignments can be diverted to new, high-esteem activities that convey extra abilities to the association.

## 1.2 Research Problem

Unlike the financial institutions in the financial sector, the large majority of MFIs globally have not been sustainable. They have depended on donor funding, subsidies, and gifts from governments, to remain in operation because they were unable to cover their costs, and were not self-sufficient. One study exposed that 30 percent of local microfinance schemes working in 2011 were either no more extended in operation or were no longer loaning capital two years after the fact (Bhatt, Painter and Tang, 2012). Furthermore most microfinance projects report trouble in covering costs without proceeded with dependence on gifts, outside raising money, or different appropriations. Microfinance institutions in Kenya face a myriad of challenges that greatly affect their performance. These are the high cost of giving out Micro-loans; the cost of processing so many micro-loans; institutional inefficiencies; poor distribution system of Microfinance institutions and lack of customized solutions for the poor thus some MFIs grope in the dark as they try to understand the varied needs of micro entrepreneurs (Fehmen, 2012).

Locally, studies conducted on BPI and operational efficiency include Sirma (2011) who did a study on the business process improvement approaches used by manufacturing SMEs in Nairobi, Kenya. Gitu (2012) focused on variables affecting business process change at Nairobi City Water and Sewerage Company in Nairobi County, Kibwage (2012) assessed business prepare change hones embraced by funds and acknowledge social orders for front office benefit movement in Nairobi region. Muli (2014) directed a study on quality change practices and business execution among business state enterprises in the Ministry of Health, Kenya. As indicated by Kipkoech and Muturi (2014) capital structure, capital sufficiency, number of

customers served, branch system are theorized to impact MFI management in Kenya. Kimando (2012) discovered that financial directions, number of customers served, budgetary scope and volume of credit executed were the variables that very influenced the operationality of microfinance foundations. Maina (2014) pointed out technology, management, staff motivation and infrastructure as factors influencing operational efficiency of MFI's.

Based on the previous studies, it was noted that there is no any documentation or empirical evidence regarding the relation of BPI and operational efficiency. Therefore, this study seeks to bridge this gap by answering the question: What is the effect of business process improvement practices on operational efficiency of microfinance institutions in Kenya?

### **1.3 Research Objectives**

The objective of the study was to determine effect of business process improvement practices on operational efficiency of microfinance institutions in Kenya.

### **1.4 Value of the study**

The study gives vital contributions from both a theoretical and practical standpoint. From a theoretical standpoint, it contributes to the general understanding of the business process improvement practices adopted by microfinance institutions Kenya. The study is invaluable to the following:

This study will provide the stakeholders with deeper insights into what the company needs to do to ensure proper process improvement strategies. The results of this study will benefit other companies in particular in terms of improving service delivery for increased customer satisfaction, with serene and conducive work environment. The

research findings also provides vital information that assisted government particularly policy makers, planners and programme implementers to formulate policies and strategies on operation management.

Further, the research findings also provided vital information that benefited future academicians and researchers on operation management and specifically process improvement. Future investors in this field will also find a point of reference as they draw policies, procedures and strategies of entry. Managers and other stakeholders will also be able to understand better the challenges faced by microfinance institutions and draw best approaches for overcoming them.

To the academician and researchers, the study will be used for further research into areas such as lean thinking, process function reconfiguration, organizational strategy realignment, technology adoption and total quality management..The study is also likely to establish areas of further research in the field of business process improvement and operational efficiency.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this second chapter, relevant literature information that is related and consistent with the objectives of the study is reviewed. Important issues and practical problems are brought out and critically examined so as to determine the current facts. This section is vital as it determines the information that link the current study with past studies and what future studies will still need to explore so as to improve knowledge.

#### **2.2 Theoretical Foundation**

This study will be anchored on the agency theory, the resource-based view theory and also the stakeholder theory.

##### **2.2.1 Agency Theory**

Also referred to as the principal-agent problem, agency theory formed on a basic commence that proprietors (principals) set up an association with directors (operators) and delegate work to them. Principals and specialists have diverse self-interests (Jensen and Meckling, 1976), which makes an organization issue and obliges systems to minimize the issue in every occasion.

Eisenhardt (1989) separates between two unique employments of organization theory – the positivist and the general approach. The positivist approach concentrates for the most part on the vital specialist relationship amongst proprietors and directors of expansive, open organizations. The more broad approach, followed in this paper, is the 'Central Agent' relationship that presents findings as the theory that can be connected to business worker, legal counselor customer, purchaser provider and other organization connections (Harris &Raviv, 2009). The general Principal-Agent

relationship can be connected to all levels in the association, in this manner, giving this study a more extensive and more applicable scope.

There are three distinct sorts of agency dependency in BPI inside the association, to be specific: objective, assignment, and asset. What's more, they give three unique levels of office relationship: general, conferred, and basic, which rely on upon how much the specialist will be influenced if the employment comes up short. This general comprehension of theory is additionally appropriate in process-based associations and converts into various levels of duty and into chains of progressive duties that set up responsibility and control and in this manner help with minimizing the office issues connected with BPI change (Eisenhardt, 1989). Therefore, agency theory, through its comprehension of the distinctive interests of staff in the association, is equipped for clarifying the basis in relegating specialists (handle proprietors) to various procedures and also clarifying the impacts of their inclusion in BPI ventures. It is additionally contended that business procedure possession gives both duty and an abundance of learning to BPI ventures.

### **2.2.2 Resource-Based View Theory**

RBV concentrates on the inward attributes and execution of the association (Porter, 2009). The theory recommends that associations have distinctive sorts of assets that fall under two classes: (a) helpful and vital, and (b) aggressive and money related. The hypothesis depends on the supposition that organizations have particular, not indistinguishable vital assets. Assets are not superbly versatile and accordingly heterogeneous. In this manner, associations are accumulations of assets, and the scarcer the authoritative gathering of assets the less the upper hand they really hold.

Beside assets, RBV theory likewise focuses on abilities. Capacities are amassed information in associations coming about because of utilizing its current assets as a part of a productive and successful approach to accomplish its last objectives (Idris, Abdullah, Idris, & Hussain, 2013). Capacities are isolated into four primary classifications: useful differential, positional differential, social differential, and administrative differential. These abilities create from existing aptitudes and experience (useful), as inclinations of past activities (positional), as an aftereffect of the impression of the person of the authoritative partners (social), or from hierarchical arrangements and controls (administrative). In this manner, with regards to BPI, the theory infers that an association with a culture steady of BPI, with existing procedure based change directions, and with past involvement in leading BPI undertakings, will accomplish more elevated amounts of BPI capacities.

Supporting upper hand is particularly identified with the human and specialized capacities. Hierarchical ability as far as staff with existing BPI-related experience and the proprietorship and presentation to an assortment of specialized BPI instruments majorly affect the last consequences of the BPI extend. This amassed encounter has esteem, is difficult to emulate, exchange or substitute and can be exploitable by the association and in this way makes 'supportable upper hand' as per RBV hypothesis. In this way, RBV hypothesis and its upper hand supportability are firmly identified with BPI.

### **2.2.3 Stakeholder Theory**

A stakeholder as defined by Freeman (1984) is any group or person who can influence or is influenced by the accomplishment of the association's destinations. Freeman (1984) follows the expression "partners" back to the Stanford Research Institute in



1963 characterizing the term as those groups without whose bolster the association would stop to exist (Donaldson and Preston, 2015). Stakeholder theory enhances the estimation of the results of the partner choices by distinguishing the interests of different partner gathers and disallowing them from being burdened, at last bringing about more noteworthy comes back to shareholders.

Modern organizations have turned out to be more straightforward and responsible so as to meet their new, intuitive and responsive associations with partners. Partners ought to be characterized through their honest to goodness interests in the association as opposed to the association's enthusiasm for them. In this manner, perceiving commitments to partners helps associations to wind up effective (Andriof et al., 2012). This thought is additionally intensely bolstered by the office hypothesis. Partner focus is the exertion consumed by the association aiming to fulfill most of the key partners.

Stakeholders in BPI are recognized as far as the level of dependence and connection with the procedure to be moved forward. In this manner, the bigger the procedure the higher the quantity of key partners included. In rundown, partner hypothesis, with regards to BPI, recommends that perceiving and adjusting key partners' worries can positively affect the aftereffects of the venture specifically and the hierarchical execution all in all. This territory is to a great extent disregarded in the field of BPI. As needs be, we contend that distinguishing and adjusting to the interests of different key utilitarian based staff, and in addition other outer key partner bunches, amid a business procedure change extend has a noteworthy and positive effect on BPI ventures' last results.

## **2.3 Business Process Improvement Strategies**

Over the last 20 years, best practices have been collected and applied in various areas.

This section reviews several practices applicable in MFIs.

### **2.3.1 Organizational Strategy Realignment**

All firms exist in a domain that affects how they plan and execute procedures and how they conduct their processes. Strategy alludes to the apparatus of the assets and exercises of an association to nature in which it works. As indicated by Davies and Walters (2004), it is through key administration that a firm can position and relate itself to the earth to guarantee its proceeded with achievement furthermore secure itself from shocks realized by the evolving environment.

The reason for technique realignment is to give directional signals to the association that allow it to accomplish its goals while reacting to the open doors and dangers in the earth (Pearce and Robinson, 2007). Johnson and Scholes (2012) see methodology realignment as the bearing and extent of an association over the long haul, which accomplishes advantage for the association through its design of assets inside an evolving domain, and satisfy partner's desires. An unbending methodology that limits the utilization of the most appropriate apparatuses and strategies ought to be stayed away from. It is essential to build up a methodology that diagrams to the staff the arrangement (or guide) for the presentation of the periods of the persistent change program. A noteworthy activity course of events ought to be created as a component of the plan (Grant, 2012).

### **2.3.2 Technology Adoption**

Technology and Innovation has verifiably played an essential role in the business procedure change idea. It is considered by some as a noteworthy empowering agent

for new types of working and teaming up inside an association and crosswise over authoritative outskirts (Harry and Schroeder, 2006). By and large, new innovation offers different sort of beneficial outcome to BPI application. For instance, the use of a WFMS may, result in less time that is spend on strategic undertakings. A Document Management System will open up the data accessible on requests to all members, which may bring about a superior nature of administration. Innovation appropriation change the customary method for working together by giving members totally new potential outcomes (Peppard & Rowland, 2015).

The selection of PC innovation in the BPI apply an assortment of techniques to test the legitimacy of information, distinguish issues and needs, outline an investigation, plan or model that methodically characterizes an issue, recognize data sources proper to unique needs or issues, and define questions significant to illuminating a specific issue point or issue. According to Buttles-Valdez (2008), today's associations are to a great extent reliant on high-innovation to create, fabricate, and keep up their products and services. The people, process, technology and culture work together to support the organization's values, policies, processes, and strategic business objectives.

### **2.3.3 Organization Restructuring**

Flexibility of the organization structure is vital factor when exercising BPI. Most firms restructure their organization structure in order to pave ways for effective Business Process Improvement. However, for organization structure to tally with the Operational efficiency intended organizations use approach method in most outrageous frame in every assignment where execution assets are chosen from the ones equipped for performing it that has taken a shot at the request before assuming any. The conspicuous preferred standpoint of this best practice is that each individual

gets to know the case and need less setup time. An extra advantage is that the nature of administration is expanded (Hammer & Champy, 2013).

During the time spent rebuilding association structure, centralization practice is expressly proposed going for abusing the advantages of a Work stream Management System (WfMS) (Jablonski & Bussler, 2009). At the point when Workflow Management System deals with doling out work, assets turn out to be less important where these assets are found topographically. In this sense, rebuilding association structure practice is a unique type of the vital innovation best practice (Peppard & Rowland, 2015). The particular favorable position of this measure is that assets are submitted all the more adaptably, which gives a superior usage and perhaps a superior info time. Promote part up duty among the staffs in the line of charge is considered as another practice that involves in rebuilding association structure. The thought behind this best practice is that assignments for which distinctive offices share duty will probably be a wellspring of disregard and struggle.

#### **2.3.4 Employees Empowerment**

Workers need certainty that participation in persistent change is to their greatest advantage. There are numerous natural prizes including realizing that one's work learning and sentiments are regarded through usage of process enhancements. It is additionally essential to perceive that individuals who are included in or being subjected to change experience various stages and that their requirement for correspondence, training and support at every stage can be very unique. To be sure, extraordinary people may require totally unique administration approaches. It is typical for stretch levels experienced by staff to be raised amid times of progress (Shin & Jemella, 2012). This wonder influences conduct and makes a potential risk to security and item quality.

All supervisors who are driving change activities contemplate this current workers' contribution and strengthening as it minimizes issues amid the change program and result in a superior hierarchical environment. Rewards based upon the fiscal funds of a procedure change may profit representatives; be that as it may, they can likewise be wellsprings of discontent and envy between workers. People not on the CPI group being perceived may feel insulted on the off chance that they by implication contributed key data to the CPI cooperation yet are not compensated in light of the fact that they are not "official" colleagues. Counting CPI group cooperation into worker individual execution audit and motivating force rewards has ended up being a powerful reward. There is additionally a need to perceive that interpersonal aptitudes can individuals to be more powerful in nonstop change exercises (Idris, Abdullah & Hussain, 2013).

Staff training can be utilized to fortify certain practices and states of mind which add to successful administration while focusing on the requirement for development in practices which don't encourage the accomplishment of wanted administration quality objectives. As indicated by Gee and Nystrom, nonstop quality change relies on preparing. There is a sure vital fit between aptitudes preparing and quality administration that upgrades Operational proficiency usage and plan (Hammer & Champy, 2013).

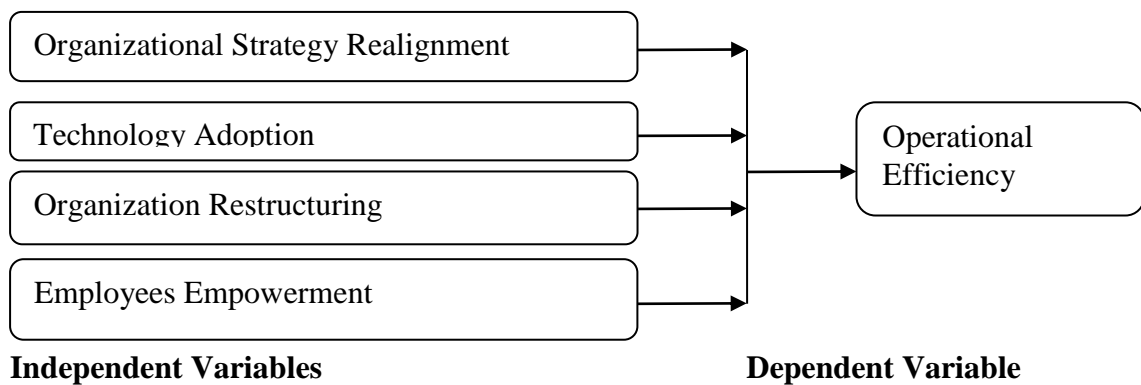
#### **2.4 Business Process Improvement and Operational Efficiency**

BPI procedures in financial services have risen as the new flood of progress in BPI applications. Citibank and GE cash are cases of fruitful money related organizations that embraced Six Sigma and Lean as change techniques to build consumer loyalty (Douglas and Erwin, 2010). Thus, the investigations of Allway and Corbett (2012) and Swank (2013) delineated the achievement of Lean usage, through contextual

analyses in budgetary administrations, demonstrating that an organization can profit both as far as cost decrease and better administration quality for the client.

Shin and Jemella (2012) examined the appropriation of BPR in financial institutions for giving rules in leading change ventures. Coming about because of the examination of TQM reception in monetary administrations, Knights and McCabe (2007) uncovered that an organization puts more accentuation on cost lessening and control, while giving careful consideration to the gentler perspectives that are imperative in measuring the achievement of activities. Reactions of BPI reception in administrations, be that as it may, have been set in the writing, especially in an absence of thought of 'delicate angles' identified with administration representatives and client point of view (Elliott, 2013).

## 2.5 Conceptual Framework



**Figure 1.1: Conceptual Framework**

## 2.6 Summary and Key Gaps in Knowledge

This study is depended on the agency theory, asset based perspective of the firm theory and stakeholder theory. BPI strategies in money related and human services administrations have risen as the new rush of progress in BPI applications. While arrangement of operations with key needs is center to aggressiveness, the constant

change of operation procedures plays an essential integral part in journey of intensity over the long haul. Consistent change has been characterized as an extensive procedure of engaged and ceaseless incremental advancement. This requires the fit between business forms (BP) and frameworks that bolster the administration of business procedures be persistently kept up and advanced. The essential Operational effectiveness checked on in this study incorporate authoritative technique realignment, innovation appropriation, association rebuilding and workers strengthening.

Gaps exist in this literature mainly in the coverage, relating to the delicate viewpoints, proposing a requirement for exact research to widen experiences into BPI reception in the administration setting. Further, none of these studies have concentrated on the business procedure change and operational effectiveness. Also, the greater part of the studies cited in this section are directed in create nations whose key approach and budgetary balance is not the same as that of Kenya. There is along these lines a writing crevice on the impact of business process change and operational proficiency of store taking microfinance establishments in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter sets out different stages and stages that were followed in completing the study. It describes the techniques that were utilized as a part of the gathering of information applicable in answering the research questions. The accompanying subsections are incorporated; inquire about outline, target populace, data analysis.

#### **3.2 Research Design**

A descriptive research design was used in this study. Descriptive research allows analysts to utilize both qualitative and quantitative information with a specific end goal to discover information and attributes about the populace or phenomena that is being investigated on (Mugenda and Mugenda, 2003).

The technique was picked since it was more exact and precise as it includes depiction of occasions in an orderly manner. A graphic research plan decides and reports the way things are (Mugenda and Mugenda, 2003). Creswell (2003) indicates that an engaging exploration plan is utilized when information are gathered to depict people, associations, settings or wonders.

#### **3.3 Population**

The target population for this study included the 12 microfinance institutions who are members of Association of Microfinance Institutions and registered with CBK as at December 2015. The study adopted a census approach collecting data from all the operations managers, customer care personnel in the microfinance institutions headquarters and one customer from each of the MFIs since the population is not large.



### **3.4 Data Collection**

The researcher utilized a survey as the essential information gathering instrument. As indicated by Pole and Lampard (2010), a self-directed questionnaire is the best way to evoke self-write about individuals' conclusion, states of mind, convictions and qualities. The survey was partitioned into areas speaking to the different factors received for study. Every area of the picked think about incorporates shut organized and open finished inquiries. The inquiries were intended to gather subjective and quantitative information. The open-ended surveys give unlimited flexibility of reply to respondents. The surveys were regulated through drop and pick strategy to the operations managers in each MFI.

Secondary data was gathered from other past records that has been gathered and arranged through diagrams, outlines and reports. This kind of information was gathered from reference materials, which had key data and are useful to this study consider. Gathering of Secondary data was acquired through work area look into, which was either from interior or outer sources. The outer sources incorporate production squeeze, daily papers, libraries, and different research related institutions.

### **3.5 Data Analysis**

Before assessing the responses, the returned questionnaires were checked for consistency, cleaned, and the valuable ones coded and entered in the Statistical Package for Social Sciences (SPSS) PC programming. For the quantitative information, an expressive investigation was utilized, for example, implies, standard deviation and frequency questionnaire. The subjective information adopted a substance investigation strategy and exhibited in composition. Tables and other graphical presentations as suitable were utilized to introduce the data gathered for simplicity of analysis.

In addition, multiple regressions were used to measure the strength of the relationship between the dependent and independent variables. For this study, the researcher was interested in measuring the extent to which various aspects of business process improvement affect operational efficiency. The regression equation was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha$$

Where **Y** is the dependent variable (Operational efficiency),

**$\beta_0$**  is the regression coefficient/constant/Y-intercept,

**$\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$**  are the slopes of the regression equation,

**$X_1$**  is the Organizational Strategy Realignment

**$X_2$**  is the Technology Adoption

**$X_3$**  is the Organization Restructuring

**$X_4$**  is the Employees Empowerment.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter discusses the findings obtained from the primary instrument used in the study. It shall discuss the characteristics of the respondents, their opinions on the business process improvement and operational efficiency of microfinance institutions in Kenya. Tables and graphs summarize the findings.

##### **4.1.1 Response Rate**

The study targeted 12 microfinance institutions in Kenya and in each institution he targeted operation manager, customer care personnel and one customer. Out of 36 questionnaires administered, a total of 31 filled questionnaires were returned giving a response rate of 75.0% which is within what Pole and Lampard (2010) prescribed as a significant response rate for statistical analysis and established at a minimal value of 50%. The study made use of frequencies (absolute and relative) single response questions. The study also used likert scale in collecting and analyzing data.

#### **4.2 Characteristics of Respondents**

The study sought to enquire on the respondents' general information including, highest academic qualification, the number of years respondents had worked with the organization, department working in organization as well as position held in organization. This general information is presented below.

##### **4.2.1 Highest Academic Qualification**

The respondents were requested to indicate their highest level of education. The results are as shown in the table 4.1.

**Table 4. 1: Highest Academic Qualification**

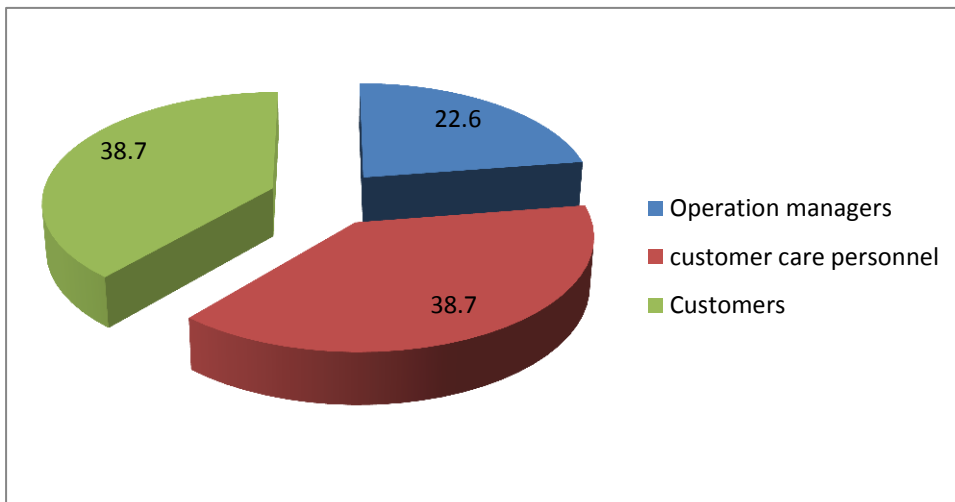
	Operation managers		customer care personnel		Customers		Total	
	F	%	F	%	F	%	F	%
Certificate	0	0%	0	0%	4	33%	4	13%
Diploma	1	14%	2	17%	4	33%	7	23%
Undergraduate	5	71%	9	75%	3	25%	17	55%
Post graduate	1	14%	1	8%	1	8%	3	10%
<b>Total</b>	<b>7</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>12</b>	<b>100%</b>	<b>31</b>	<b>100</b>

The findings indicated majority of the respondents were graduates represented by 55%, diploma level were 23%. Those with certificate were 13% while those who were post graduate was 10%. As per the findings majority of the respondents understood the objectives of the study and therefore they gave relevant information.

#### **4.2.2 Functional Department of the Respondents**

The researcher requested the respondents to indicate the department they work in the organization. The findings are summarized in the figure 4.1.

**Figure 4. 1: Functional Departments in the Organization**



As per the findings MFIs customer care personnel were represented by 38.7% of the respondents while 22.6% of the respondents were operation managers. The rest were customers. The findings imply that the respondents were adequately informed to give reliable information on the subject matter of this study based on the departments in which they served.

#### **4.2.3 Position Held in the organization**

The respondents were further respondents were further required to show the position they hold in the department. The results are shown on the table 4.2.

**Table 4.2: Position Holds in the organization**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative</b>
Technical personnel	3	9.7	9.7
Supervisor	2	6.5	16.1
Unit head officer	3	9.7	25.8
Departmental head officer	4	12.9	38.7
Assistant manager	6	19.4	58.1
Manager	1	3.2	61.3
Customers	12	38.7	100.0
<b>Total</b>	<b>31</b>	<b>100.0</b>	

From the findings 12.9% of respondents were assistant managers in microfinance institutions, while 3.2% were managers in microfinance institutions. The implication of the findings is that assistant managers are many than the managers in the organisation and therefore could give relevant information on the subject matter since they are involved in the formulation of various strategies.

#### **4.2.4 Experience in the Organization**

The respondents were also requested to indicate the time they had interacted in the banks. The responses obtained are shown in the table 4.3.

**Table 4.3: Duration Worked in Organization**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative</b>
1-5	4	13%	13%
6-10	10	31%	44%
11-15	12	38%	82%
16 and above	12	38%	100%
<b>Total</b>	<b>31</b>	<b>100</b>	

The finding implies that majority of the respondents had worked in the organisation for over 5 years and were well conversant with the business process improvement and operation efficiency of organisation.

#### **4.3 Organizational Realignment**

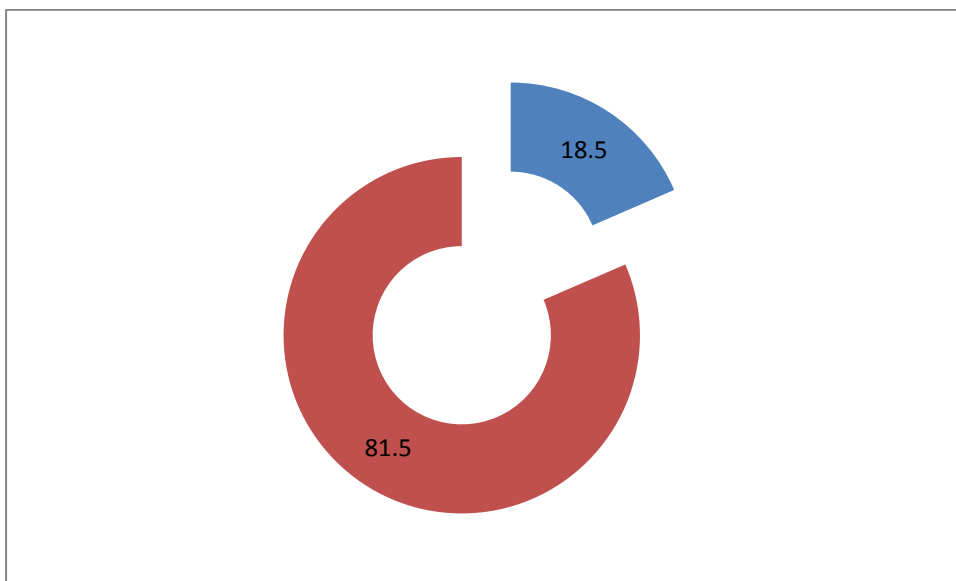
The objective of the study was to establish how organizational strategy realignment affects operational efficiency of microfinance organization in Kenya. The researcher requested know more about whether their organizations review strategies, extent of

strategy realignment in different levels and how strategies realignment affect operational efficiency in the organization.

#### 4.3.1 Review of Strategies and Activities

The respondents were to indicate whether their organizations review strategies and activities. The responds are shown on figure 4.2.

**Figure 4.2: Review of Strategies and Activities**



81.5% of the respondents indicated that their organisations review set strategies and activities. This implies that most organisations have noticed that review of strategies and activities is very important in determining operation efficiency of the organisation and so the management are keen in realigning the operation to the current needs of the organizations.

#### 4.3.2 Extent of Strategy Realignment in different Levels

The respondents had to indicate the level of extent the strategic realignment has in the following strategic levels. The study questions were in a likert scale of between 1 and 5. Where 1 = No extent; 2 =Low extent; 3 = Moderate extent; 4 = Great extent; and 5

= Very great extent. The scores were also calculated to mean scores which were interpreted as 4.5 - 5.0 Very great extent; 3.4 - 4.4 Great extent; 2.5 - 3.4 Moderate extent; 1.5 - 2.4 Low extent; and 0.0 - 1.4 No extent. The findings are shown in the table 4.4.

**Table 4.4: The Level of Extent of Strategy Realignment in the Strategic Levels**

	Mean	Std. Deviation
Corporate level	3.370	.945
Business level	3.407	.808
Functional level	3.333	.714
Dynamic level	3.507	.808
Operational level	2.407	.748
Composite mean	<b>3.2048</b>	

The findings deduce that dynamic level affects strategic realignment most. The study agree with study of Grant (2012) which noted that it is vital to create a strategy that shows to the employees the plan (or roadmap) for the outline of the stages of the constant development programme. This implies that strategy realignment is carried out in all the strategic levels of the organisation.

#### **4.3.3 Strategies Realignment and Operational Efficiency in the Organization**

Using a scale of 1-5, the respondent gave the following.



**Table 4.5: Strategies Realignment and Operational Efficiency in the Organization**

	<b>Mean</b>	<b>Std. Dev</b>
My organization review strategies in order to enhance operational efficiency within all departments.	2.685	.701
Strategy in our organization outlines staffs responsibility and introduces continual improvement programs	3.555	.887
strategies set in our organization are future oriented plans interacting with the competitive environment to achieve operational efficiency	3.148	.606
Recent strategy realignment give direction and scope over the long-term that results to achievement and fulfill stakeholder's expectations	3.407	.878
Management in our organization considers Current state of the corporation's performance and its future objectives	3.222	.968
Senior management review and approve the strategy and the plan before submitting them to the board of directors for final approval	4.629	.979
<b>Composite mean</b>	<b>3.441</b>	

The results implies that senior management of microfinance institutions review and approve the strategies and the plan before submitting them to the board of directors for final approval. The findings are as per Davies and Walters (2004) who says it is through strategic management that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. The findings note that strategic

realignment is important factor in determining operation efficiency of microfinance organizations.

#### 4.4 Technology Adoption

In relation of technology adoption and how it affects operational efficiency of microfinance organization in Kenya the results are represented in table 4.6.

**Table 4.6: The Level of Adoption of the Technologies in the Company**

	Mean	Std. Deviation
Computers	4.633	.937
Enterprise resource system	3.037	.624
Management information systems	3.559	.984
Decision support systems	3.074	.406
Executive information systems	3.222	.712
Order processing	2.425	.806
Network discovery and reconciliation	3.259	.984
Network inventory	3.148	.661
System administration functions	3.333	.837
Application development functions	3.148	.761
Transaction Processing Systems	3.833	.937
<b>Composite mean</b>	<b>3.333</b>	

The study deduces that computers systems have been widely adapted to the microfinance institutions. The results are in agreement with Buttles-Valdez (2008) who highlighted that today's organizations are largely dependent on high-technology to develop, build, and maintain their products and services.

#### 4.4.1 Technology Adoption and Operational Efficiency in the Organization

Table 4.7 represents the findings.

**Table 4.7: Technology Adoption and Operational Efficiency in the Organization**

	Mean	Std. Dev
Our management team considers IT as a major enabler for new forms of working and collaborating within an organization and across organizational borders	3.222	.896
Technology adoption change the traditional way of doing business by giving participants completely new possibilities.	3.896	.536
New technology adoption offers various kind of positive effect to BPI application	2.985	.615
Our organization is increasingly setting quality management as an organizational priority to improve its competitiveness in the market share.	3.259	.757
Today our organization is largely depending on high-technology to develop, build and to maintain its products and services.	3.296	.925
<b>Composite mean</b>	<b>3.331</b>	

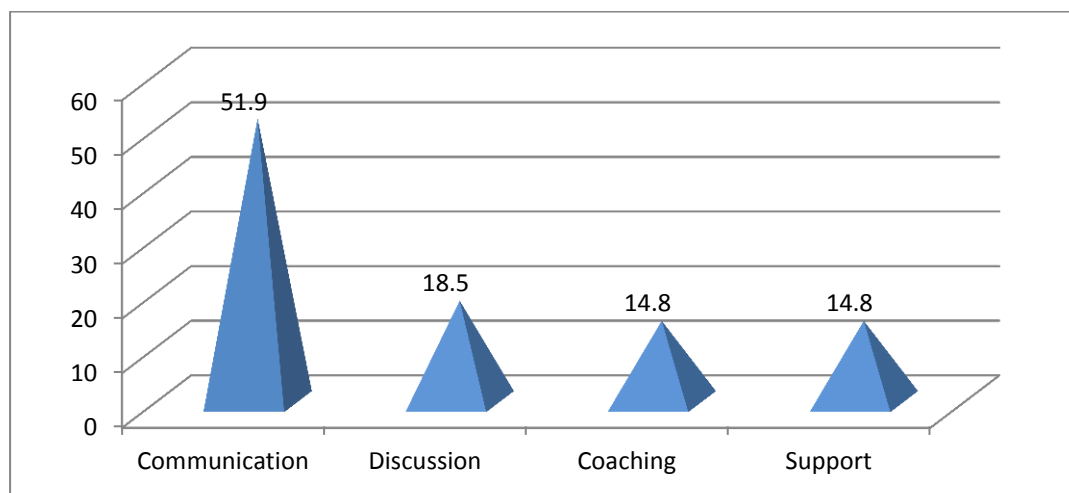
This finding implies that technology adoption plays a big role in operation efficiency of microfinance institutions. The findings are in relation to Peppard and Rowland, (2015) who observed that technology adoption change the traditional way of doing business by giving participants completely new possibilities. This is more so in MFIs

where most of the operations have been automated to enhance service delivery and efficiency in operations.

#### 4.5 Employees Empowerment

In relation to employee empowerments and operation efficiency the findings are represented in figure 4.3.

**Figure 4.3: Employees empowerment in MFIs**



The findings indicated that 51.9% of organizations have adopted communication as a mean to empower employees in operation efficiency while only 14.8% of the organizations have embraced support as a mean to empower employees in operation efficiency. Implication of this finding to the study is that communication has been seen as suitable and reliable mean of employee empowerment in the organization for operational efficiency of the organization. This concur with Shin and Jemella (2012) who indicated that it is also important to recognize that people who are involved in or being subjected to change go through a number of phases and that their need for communication, discussion, coaching and support at each stage can be quite different.

#### 4.5.1 Employee Empowerment and Operation Efficiency

The findings are discussed in table 4.8.

**Table 4.8: Employee Empowerment and Operation Efficiency**

	Mean	Std. Deviation
All managers who are leading change initiatives take this into consideration employees' involvement and empowerment	3.296	.982
Personal performance review and incentive bonuses has proven to be an effective reward system that empowers staffs in our organization	3.967	.909
Staff training and development is used to reinforce certain behaviors and attitudes which contribute to effective service	3.596	.953
Improvement efforts are directed at al resources, processes, equipment and tools, environment and safety, information and measurements	2.985	.759
<b>Composite mean</b>	<b>3.461</b>	

The study establishes that personal performance review and incentive bonuses have proven to be an effective reward system that empowers staffs in the MFIs. The findings are in agreement with Hammer and Champy, (2013) study which says that there is a certain strategic fit between skills training and quality management that enhances operational efficiency implementation and formulation.

#### 4.6 Organization Restructuring and Operation Efficiency

The results are discussed in table 4.9.

**Table 4.9: Form of Restructuring in the Organization**

	Frequency	Percent	Cumulative
Operational restructuring	7	22.2	22.2
Financial restructuring	11	37	59.2
Market restructuring	5	14.8	74.1
Product restructuring	2	7.4	81.5
Organizational restructuring	6	18.5	100
<b>Total</b>	<b>31</b>	<b>100</b>	

From the findings, 37.0% of the respondents indicated that their organization has undergone financial restructuring in an attempt to achieve operational efficiency the organization while 7.4% of the microfinance institutions have undergone product restructuring. The finding implies that the microfinance institutions in Kenya values financial restructuring most. The findings are in line with Peppard and Rowland study (2015) which indicates that restructuring organization structure practice is a special form of the integral technology best practice.

#### 4.6.2 Organization Restructuring and Operational Efficiency

Respondents had to indicate the level of agreement of the following statements related to organization restructuring and operation efficiency. Table 4.10 shows the summary of the findings.

**Table 4.10: Organization Restructuring and Operational Efficiency**

	<b>Mean</b>	<b>Std. Deviation</b>
Organization structure tally with the operational efficiency intended by organizations in assignment most extreme form in each task.	4.667	.987
Due to organization restructuring done by management every person gets acquainted with the case and need less setup time	3.481	.682
Resources in our organization are committed more flexibly hence giving a better utilization and possibly a better input time.	3.281	.869
Splitting up responsibility among the staffs in the line of command in restructuring organization structure.	3.718	.951
Management staffs should consider increasing the number of resource, when capacity is not sufficient	2.985	.981
<b>Composite mean</b>	<b>3.6264</b>	

The findings deduce that organization structure tally with the operational efficiency intended by organizations in assignment most extreme form in each task. The results correlates with Jablonski and Bussler (2009) study which says that process of restructuring organization structure, centralization practice is explicitly proposed aiming at exploiting the benefits of a Work flow Management System (WfMS).

#### 4.7 Operational Efficiency

In this study, the operational efficiency was measured using customer satisfaction, employees' motivation, level of co-worker support, quality of service provided, cost, flexibility and timeliness. The results are summarized in table 4.11.

**Table 4.11: Operational Efficiency**

	Mean	Std. Deviation
Customer satisfaction	3.522	.610
Employees motivation	3.722	.810
Level of co-worker support	3.222	.710
Quality of service provided	3.470	.905
Cost	3.370	.705
Flexibility	3.570	.905
Timeliness	4.303	.993
Composite mean	<b>3.479</b>	

This shows that the MFIs have been doing well in terms of timeliness, employees motivation and the level of co-worker support.

#### 4.8 Regression Analysis

Multiple regressions were used to measure the strength of the relationship between the dependent and independent variables. The model is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha$$

Where **Y** is the dependent variable (Operational efficiency),

$\beta_0$  is the regression coefficient/constant/Y-intercept,

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  are the slopes of the regression equation,



$X_1$  is the Organizational Strategy Realignment,

$X_2$  is the Technology Adoption,

$X_3$  is the Organization Restructuring,

$X_4$  is the Employees Empowerment,

**Table 4.12: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1	.809 <sup>a</sup>	.655	.643

a. Predictors: (Constant), organization strategy realignment, technology adoption, organization restructuring, employees empowerment

Table 4.12 is a model fit which establish how fit the model equation fits the data. The adjusted  $R^2$  was used to establish the predictive power of the study model and it was found to be 0.643 implying that 64.3% of the variations in operation efficiency of microfinance institutions is explained by organizational strategy realignment, technology adoption, organizational restructuring and employees empowerment leaving 35.7% percent unexplained. Therefore, further studies should be done to establish the other factors (35.7%) affecting the operation efficiency of microfinance institutions in Kenya. This is in line with Sirma (2011) who indicated that business process improvement approaches used by manufacturing SMEs in Nairobi enhanced their efficiency to a very great extent.

**Table 4.13: ANOVA <sup>a</sup>**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1 Regression	3.041	4	.760	55.929	.000 <sup>b</sup>
Residual	1.604	26	.014		
Total	4.645	30			

a. Dependent Variable: Operational efficiency of microfinance institutions

b. Predictors: (Constant), organization strategy realignment, technology adoption, organization restructuring, employees empowerment

The probability value of 0.00 indicates that the regression relationship was highly significant in predicting how organization strategy realignment, technology adoption, organization restructuring as well as employees empowerment influence operation efficiency of microfinance institutions. The F calculated at 5 percent level of significance was 55.929 since F calculated is greater than the F critical (value = 2.4495), this shows that the overall model was significant.

**Table 4.14: Coefficients <sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.351	.432		3.127	.0022
Organization strategy realignment	.722	.196	.146	3.684	.0003
Technology adoption	.663	.113	.126	5.867	.0000
Organization restructuring	.873	.148	.045	5.899	.0000
Employee empowerment	.511	.162	.142	3.154	.0020

a. Dependent Variable: Operational efficiency of microfinance institutions

All the variables were significant at  $p=0.05$  implying that the four aspects of BPI have a significant effect on the operational efficiency of microfinance institutions. The findings supports studies of Allway and Corbett (2012) and Swank (2013) which illustrated that success of Lean implementations, through case studies in financial services, shows that a company can benefit both in terms of cost reduction and better service quality for the customer.

#### 4.9 Summary

The objective of the study was to assess effect of business process improvement practices on operational efficiency of microfinance institutions in Kenya. The findings revealed that for operational efficiency of the organization to be achieved in the

organization, the organization should consider the following four important business process improvement namely; organizational strategy realignment, technology adoption, employee empowerment and organization restructuring. The adjusted  $R^2$  was used to establish the predictive power of the study model and it was found to be 0.643 implying that 64.3% of the variations in operation efficiency of microfinance institutions is explained by organizational strategy realignment, technology adoption, organizational restructuring and employees empowerment.

The study sought to know how and to what extent these variables; organization strategy realignment, technology adoption, employee empowerment and organization restructuring influences operation efficiency. The finding on this objectives revealed that truly all the variables have an influence on operation efficiency of microfinance organization because in the regression model they were all significant. This notwithstanding, it was surprising that the hard factors such as organization restructuring, organization strategy realignment and technology adoption had more effect than the soft one like employee empowerment that have a direct effect of the MFIs staff as evidenced by their composite mean scores.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary, conclusion drawn from the findings highlighted and recommendations as per the objective of the study which were to determine effect of business process improvement practices on operational efficiency of microfinance institutions in Kenya.

#### 5.2 Summary of Findings

The study reveals that microfinance organizations review strategies in order to enhance operational efficiency within all departments. The findings were as per Davies and Walters (2004) who states that an organization can link itself to the environment to guarantee its constant victory in an environment through strategic management.

The findings summarize that ICT has been adopted in MFIs. The researcher established that transaction processing system and management information system have been adopted by microfinance institutions in order to enhance their operation efficiency. The findings revealed that majority of microfinance institutions have not embraced order processing much in their organization. The results are in agreement with Buttles-Valdez (2008) who highlighted that today's firms are reliant on high-technology to establish, and retain their products and services.

The results revealed that individual performance evaluation and inducement bonuses have been significant reward system that empowers staffs in the MFIs. The research also established that improvement efforts in microfinance institutions are directed at all resources, processes, equipment and tools, environment and safety, information

and measurements. The findings were in agreement with Hammer and Champy (2013) study which says that there is a deliberate fit between skills training and quality management that enhances operational efficiency implementation and formulation.

The study noted that organization structure drives operational efficiency in MFIs. The results also showed that most microfinance organizations split up responsibility among the staffs in the line of command in restructuring organization structure. Researcher found that there was a level of doubt whether management staffs in microfinance institutions should consider increasing the number of resource, when capacity is not sufficient. The results correlates with Jablonski and Bussler (2009) study which says that process of restructuring organization structure, centralization practice is overtly proposed aiming at using the benefits of a Work flow Management System (WfMS).

The research established that aspects of operation efficiency such as timeliness, employees' motivation, flexibility and customer satisfaction have improved in the microfinance institutions.

### **5.3 Conclusion**

Based on the research findings, the study concludes that organizational strategy realignment affects operation efficiency of microfinance institutions in Kenya. The study concludes that microfinance organizations usually review strategies in order to enhance operational efficiency within all departments.

Research also concludes that technology adoption affects operational efficiency of the microfinance institutions in Kenya. The microfinance institution which adopts technology in their organization such as computers, management information system,

and system administration functions, executive information system, network inventory, application development functions, decision support systems, enterprise resource system with and order processing have improved operational efficiency.

The study further revealed that employee empowerment influences the operation efficiency of the microfinance institutions. Majority of microfinance institutions have embraces personal performance review and incentive bonuses which have been proved for empowering staffs in the organization are more efficient.

The research finally concludes that organization restructuring affect operation efficiency of microfinance institutions in Kenya. Organization structure tally with the operational efficiency intended by organizations in assignment most extreme form in each task. The research established that microfinance organizations split up responsibility among the staffs in the line of command in restructuring organization structure. It was again concluded that management staffs in microfinance institutions don't consider increasing the number of resource, when capacity is not sufficient. It was however surprising that the hard factors such as organization restructuring, organization strategy realignment and technology adoption had more effect than the soft one like employee empowerment that have a direct effect of the MFIs staff.

#### **5.4 Recommendations**

Basing on the finding and conclusions above the study comes up with the following recommendation;

The study also recommends that managers of microfinance institutions should improve their operations by adopting new and advanced technology in the organization operation. Modern technology such as adoption management information system, system administration functions, executive information system,

network inventory, application development functions, decision support systems, enterprise resource system and order processing leads to effective operation of the organization since they are fast, accurate and cost effective.

This study further recommends to managers of microfinance institutions to consider staff training and development in their institutions in order to strengthen some attitudes that add to efficient service. Staff participation in decision making has to be taken into consideration because most employees feels that are part of the organization when are consulted during decision making process hence motivating them to work effectively. In conjunction with that the study recommends that managers of microfinance institutions should take into account individual performance evaluation and inducement bonuses in order to establish an effective reward system that empowers staffs in the organization.

The study finally recommends that the managers of microfinance organizations should restructure their organization to ensure that organization structure tally with the operational efficiency, resources in the organization are dedicated compliantly in giving a improved use and probably a improved input time, responsibility are split among the staffs in the line of command in restructuring organization structure. Management staffs of microfinance institutions should also consider increasing the number of resource, when capacity is not sufficient in their organization.

### **5.5 Limitation of the Study**

The study encountered reluctance by participants to expose information that may be classified as confidential. Due to confidentiality, the researcher encountered unwillingness by participants to reveal information which was classified as confidential. This was overcome by carrying an introduction letter from the university



showing it is an academic work and assuring the respondents of confidentiality since they were not required to write their names in the questionnaire. The researcher also encountered a challenge in securing the employees precious time considering their busy working schedules.

The sample of operation managers, customer care personnel and customer per each MFI may not be adequate to represent a true picture of the MFIs. More respondents such as inclusion of more customers could have been considered to give more reliable results.

The researcher was forced to make prior plans with representatives to avail themselves for the study off-time hours and in addition encouraging the workers on the estimation of the study. The researcher additionally needed to practice most extreme persistence and mind and in perspective of this the scientist needed to bend over backward conceivable in order to procure adequate information from the participants.

This study concentrated on just 12 microfinance establishments who are individuals from Association of Microfinance Institutions and enrolled with CBK. The study would have provided a more broad based analysis but this would have required more resources time being a key factor as well.

### **5.6 Suggestions for further Studies**

This study advocates for other studies to be carried out in other areas. Such areas may include identifying other factors which have effects on the operation efficiency of microfinance institutions such as culture.

Other areas for consideration into research studies may include researching on the effects of other factors such as product differentiation, employee perception and employee performance, marketing of the institution on the performance of microfinance institutions. Such studies may enable stakeholders in industry to understand the existence of other factors which exhibit major effects on the performance of their firms given that the results of effects of restructuring in this study are minimal.

Further studies on this topic could be carried out over a longer period of time. Such a longer period could be helpful given that significant effects of restructuring on the performance of microfinance institutions could take a longer period than one year to be realized as considered in this study.

It would also be important to see how restructuring relates to the size of the firm. A smaller firm in size might carry out internal restructuring faster than a large firm; however it is not clear whether the effects will be felt faster in a small firm as opposed to a large firm.

With the advent of the social media that is deeply affecting the operations of organizations today, a further study should also be done on the effect of social media on the operational efficiency of MFIs.

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## **APPENDICES**

### **Appendix I: Introduction Letter**

**Appendix II: Research Questionnaire**

**SECTION A: General Information**

1) What is your highest level of education?

Post Graduate  Diploma

Undergraduate  Certificate

Any other (specify).....

2) Kindly indicate the department you are working in.

Human resource  Corporate strategies

Information Technology

Any other (specify).....

3) Indicate position that you hold in the department.

Manager  Unit Head officer

Departmental Head  Supervisor

Assistant Manager  Technical personnel

Other (specify) .....

4) How long have worked in this position?

1-5years  11-15 years  6-10 years  16years and above

**SECTION B: BUSINESSPROCESS IMPROVEMENT**

**Organizational Strategy Realignment**

5) Does your organization review set strategies and activities? Yes  No

6) Are the strategies related to organization objectives? Yes  No

7) What is the level of strategy realignment in the following strategic levels?

	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate extent</b>	<b>Little extent</b>	<b>Not at all</b>
--	------------------------------	-------------------------	----------------------------	--------------------------	-----------------------



Corporate level					
Business level					
Functional level					
Dynamic level					
Operational level					

8) Indicate your level of agreement with the following statements relating to strategies realignment and operational efficiency in your organization.

Use a scale of 1-5, where 1-strongly disagree, 2- disagree, 3- neutral, 4- agree, 5-strongly agree.

	1	2	3	4	5
My organization review strategies in order to enhance operational efficiency within all departments.					
Strategy in our organization outlines staffs responsibility and introduces continual improvement programs					
Strategies set in our organization are future oriented plans interacting with the Competitive environment to achieve operational efficiency.					
Recent strategy realignment give direction and scope over the long-term that results to achievement and fulfil stakeholder's expectations					
Management in our organization considers Current state of the corporation's performance and its future objectives					
Senior management review and approve the					

strategy and the plan before submitting them to the board of directors for final approval					
Any other .....					

**Technology Adoption**

9) In our organization IT has been embraced as means of emphasizing operational efficiency.

Yes [ ] No [ ]

10) What is the level of adoption of the following technologies in your company

	<b>Very great extent</b>	<b>Great extent</b>	<b>Moderate extent</b>	<b>Little extent</b>	<b>Not at all</b>
Computers					
Enterprise resource system					
Management information systems					
Decision support systems					
Executive information systems					
Order processing					
Network discovery and reconciliation					
Network inventory					
System administration functions					
Application development functions					
Transaction Processing Systems					

Any other .....					
--------------------	--	--	--	--	--

11) Indicate your level of agreement with the following statements relating technology adoption and operational efficiency in your organization. Use a scale of 1-5, where 1-strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

	1	2	3	4	5
Our management team considers IT as a major enabler for new forms of working and collaborating within an organization and across organizational borders.					
Technology adoption change the traditional way of doing business by giving participants completely new possibilities.					
New technology adoption offers various kind of positive effect to BPI application.					
Our organization is increasingly setting quality management as an organizational priority to improve its competitiveness in the market share.					
Today our organizations is largely depending on high-technology to develop, build and to maintain its products and services.					
Any other .....					

**Employees Empowerment**

12) Are staffs in your organization empowered in contributing their initiatives towards operational efficiency?

Yes [ ] No [ ]

13) In which way are the employees empowered in Operational efficiency in your organization?

Communication [    ]                      Discussion                      [    ]  
 Coaching                      [    ]                      Support                      [    ]

14) Indicate your level of agreement with the following statements relating to technology adoption and Operational efficiency in your organization. Use a scale of 1-5, where 1-strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

	1	2	3	4	5
All managers who are leading change initiatives take this into consideration employees' involvement and empowerment					
Personal performance review and incentive bonuses has proven to be an effective reward system that empowers staffs in our organization					
Staff training and development is used to reinforce certain behaviors and attitudes which contribute to effective service					
Improvement efforts are directed at all resources, processes, equipment and tools, environment and safety, information and measurements					
Any other .....					

## Organization Restructuring

15) Has your organization undergone any organization-restructuring program in order to achieve operational efficiency?

Yes [ ] No [ ]

16) What form of restructuring has your organization in an attempt to achieve operational efficiency in your organization?

Operational restructuring [ ] Marketing restructuring [ ]

Financial restructuring [ ] Product restructuring [ ]

Organizational restructuring [ ]

17) Indicate your level of agreement with the following statements relating to organization restructuring and Operational efficiency in your organization. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

	1	2	3	4	5
Organization structure tally with the Operational efficiency intended by organizations in assignment most extreme form in each task.					
Due to organization restructuring done by management every person gets acquainted with the case and need less setup time.					
Resources in our organization are committed more flexibly hence giving a better utilization and possibly a better input time.					
Splitting up responsibility among the staffs in the line of command in restructuring organization structure.					
Management staffs should consider increasing the number					

of resource, when capacity is not sufficient.					
Any other .....					

18) What has been the trend of the following aspects of operational efficiency in your organization for the last five years?

	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
Customer satisfaction					
Employees motivation					
Level of co-worker support					
Quality of service provided					
Cost					
Flexibility					
Timeliness					

19) Any other comment or observation you want to share with us

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

**THANK YOU FOR YOUR TIME**

### **Appendix III: List of Registered Microfinance banks in Kenya**

1. Choice Microfinance Bank Limited
2. Faulu Microfinance Bank Ltd
3. Kenya Women Microfinance Bank Ltd
4. SMEP Microfinance Bank Ltd
5. Remu Microfinance Bank Ltd
6. Rafiki Microfinance Bank Ltd
7. Uwezo Microfinance Bank Ltd
8. Century Microfinance Bank Ltd
9. Sumac Microfinance Bank Ltd
10. U&I Microfinance Bank Ltd
11. Daraja Microfinance Bank Ltd
12. Caritas Microfinance Bank Ltd

**Source: CBK (2015)**

## Appendix IV: SPSS Output

```

GET
  FILE='D:\THESIS\FINO\POERATIONAL EFFICIENCYDATA SET-1.sav'.
DATASET NAME DataSet1 WINDOW=FRONT.
REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT Operational_efficiency
  /METHOD=ENTER      Organizational_Strategy_Realignment
Technology_Adoption Organization_Restructuring Employees_Empowerment.

```

## Regression

		Notes
Output Created		16-OCT-2016 18:44:37
Comments		
Input	Data	'D:\THESIS\FINO\POERATIONAL EFFICIENCYDATA SET-1.sav'
	Active Dataset	DataSet1
	Filter	<none>
	Weight	<none>
	Split File	<none>
	N of Rows in Working Data File	95
Missing Value Handling	Definition of Missing	User-defined missing values are treated as missing.
	Cases Used	Statistics are based on cases with no missing values for any variable used.
Syntax		REGRESSION /MISSING LISTWISE /STATISTICS COEFF OUTS R ANOVA /CRITERIA=PIN(.05) POUT(.10) /NOORIGIN /DEPENDENT Operational_efficiency /METHOD=ENTER Organizational_Strategy_Realignment Technology_Adoption Organization_Restructuring Employees_Empowerment.
Resources	Processor Time	00:00:00.03
	Elapsed Time	00:00:00.06
	Memory Required	5440 bytes
	Additional Memory Required for Residual Plots	0 bytes

[DataSet1] 'D:\THESIS\FINO\POERATIONAL EFFICIENCYDATA SET-1.sav

### Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method



1	Employees_Empowerment, Technology_Adoption, Organizational_Strategy_Realignment, Organization_Restructuring <sup>b</sup>		Enter
---	---	--	-------

a. Dependent Variable: Operational\_efficiency

b. All requested variables entered.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809 <sup>a</sup>	.655	.643	.643

a. Predictors: (Constant), Employees\_Empowerment, Technology\_Adoption, Organizational\_Strategy\_Realignment, Organization\_Restructuring

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.041	4	.760	55.929	.000 <sup>b</sup>
	Residual	1.604	26	.014		
	Total	4.645	30			

a. Dependent Variable: Operational\_efficiency

b. Predictors: (Constant), Employees\_Empowerment, Technology\_Adoption, Organizational\_Strategy\_Realignment, Organization\_Restructuring

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.351	.432		3.127	.0022
	Organizational_Strategy_Realignment	.722	.196	.146	3.684	.0003
	Technology_Adoption	.663	.113	.126	5.867	.0000
	Organization_Restructuring	.873	.148	.045	5.899	.0000
	Employees_Empowerment	.511	.162	.142	3.154	.0020

a. Dependent Variable: Operational\_efficiency