

**STRATEGIC RESPONSES OF LICENSED MICROFINANCE
INSTITUTIONS IN KENYA TO ENVIRONMENTAL CHANGES**

BY

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF
BUSINESS IN PARTIAL FULFILMENT FOR THE REQUIREMENT
FOR THE AWARD OF MASTERS DEGREE IN BUSINESS
ADMINISTRATION, UNIVERSITY OF NAIROBI, SCHOOL OF
BUSINESS.**

NOVEMBER 2012

DECLARATION

I declare that this project proposal is my own original work and has not been presented for award of any degree in any university.

Signed _____

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D61/70927/2008

Date

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

Signature _____

JEREMIAH KAGWE

Date

DEDICATION

This project has been dedicated to my wife and my two daughters, my parents and my siblings. I could not have done it without your support and encouragement.

ACKNOWLEDGEMENT

I would like to thank God for granting me perseverance throughout my period of study and seeing me through the completion of the course.

Secondly, I would like to extend my earnest gratitude to my supervisor, Jeremiah Kagwe for his constant encouragement, guidance and patience. I say a big thank you for him great support.

Lastly, I thank the management of the six microfinance institutions visited who gave me a chance to interview them during the research process. I am highly indebted for the favour I was accorded by all of you.

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ABSTRACT

The purpose of this study was to identify the strategies adopted by licensed microfinance institutions in Kenya in the light of a rapidly changing, volatile and highly competitive environment. Specifically, the study will establish the challenges MFIs face from their external environment in Kenya as well as identifying the strategic responses by MFIs to the environmental changes in Kenya. The research design was a descriptive survey to assist the researcher to identify the strategic responses used by the MFIs where the target population comprised of the six licensed deposit taking microfinance institutions in Kenya. These are Faulu Kenya, Rafiki, Uwezo, Kenya Women Finance Trust, SmeP and Remu. The study collected data by use of questionnaire. The questionnaire was divided into two main sections. The first section aimed at gathering the general background information. The second section covered the strategic responses and environmental changes of microfinance institutions. The collected data was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the objective of the study. From the study, most of microfinance institutions operate as partnerships. An organization entering into the financial industry is subject to various advantages like credit facilities from already established institutions. On the other hand however, there are many risks that come along as the organization expands for example bankruptcy, members leaving to join other upcoming institutions and even high advertisement costs due to high competition. This therefore calls for the need to operate as a limited company so that the liabilities will be

limited or as partnership so as to share the risk when it occurs. As part of recommendation, the government should impose favourable policies to enable the microfinance institutions in the Kenya to compete effectively so that they can continue with their operation. This in turn increases employment opportunities which improve economic development. Microfinance institutions should adopt strategies that will improve their performance and enable them to compete effectively in the industry. Goals and objectives should also be set by the microfinance institutions. This will enable them asses their performance whether they are growing, stagnating or deteriorating.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All organizations are environment serving and therefore totally dependent on the environment. The microfinance sector in Kenya is not an exception to this interdependency with the environment. The microfinance have to adopt to suitable strategies for survival within the highly competitive and volatile environment (Mathenge, 2008). In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit cooperative societies framework have been important sources of credit for a large number of low income households and MSEs in the rural and urban areas of Kenya. The MFIs have, however operated without an appropriate policy and legal framework. There is therefore need to focus more on these institutions to enhance their effectiveness in the provision of savings, credit and other financial services to the poor and MSEs (Omino, 2005).

According to Pearce and Robinson (2007) the firm's external environment consists of three interrelated sets of factors that play a principal role in determining the opportunities, threats and constraints that the firm faces. The remote environment comprises factors originating beyond and usually irrespective of any single firm's operating situation. These include the economic, social, political, technological and ecological factors. Factors that more directly influence a firm's prospects originate in the environment of its industry, including entry barriers, competitive rivalry, the availability of substitutes and

bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation. These include competitive position, customer profiles, suppliers, creditors and the labour market.

Microfinance Institutions accomplishes the provision of financial services to the low – income households and micro and small enterprises (MSEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. Widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs. This puts emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and economic growth (Campion and White, 1999).

1.1.1 Organization Environment

Changes in the environment are often associated with changes in strategy. Theorists have long argued that organizations respond to changes in their environments by initiating strategic response. The environmental context within which organizational changes are exerted on organizations is also likely to be a determinant of organizations' responses to institutional influence. Environmental uncertainty connectednesses are predicted to be significant dimensions of context that affect organizations' conformity or resistance to organizational demands and expectations (Pfeffer, 1982).

Ansoff and McDonnell (1990) propose that firms adapt internally to strategic postures ranging from efficiency-oriented to market-focused orientation. These two strategic

postures provide a rather parsimonious approach to mapping competitive dynamics of an industry and concurrent strategic adaptations. Although these strategic postures can be used in any environment, the effectiveness of eth strategy will be dependent on the alignment of the strategic posture with the appropriate environment. Firms that perceive their environment as more dynamic and unpredictable should pursue a market focused strategy, which is typically supported by heavy investment in research. On the other hand firms that perceive their environment, as relatively stable should pursue efficiency-oriented strategy that emphasizes cost control. This strategy involves “the banking services commonly offered”. “The cost of adapting to an uncertain environment is less likely to be recouped in a stable environment where product and service offering, as well as the method of doing business, do not require change” (Ansoff and McDonnell, 1990).

The bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment; competitor’s moves, economic fluctuations, availability of raw materials, and labour demands (Ansoff and McDonnell, 1990). According to Pearce and Robinson (2007), a host of external factors influence a firm’s choice of direction, action and ultimately its organization structure and internal processes. These factors which constitute the external environment can be divided into three categories, which include the remote environment, industry environment and the operating environment. The remote environment comprises factors that originate beyond and usually irrespective of any single firm’s operating situation. All organizations operate in a macro environment which is defined by the most general elements in the external environment that can potentially influence strategic decisions (Bateman and Zeithmal, 1993).

1.1.2 Strategic Responses

Strategy is the sustained pattern of resource allocation by which firms align themselves effectively to their external environment. Hence, a useful place to start is to consider the macro-environmental context in which industry finds itself. This is a period of unparalleled change driven by factors such as genomics, health economics and globalization. Each of these factors individually would call for a considered response from the industry, but taken together they represent a fundamental change in the market environment (Smith, 2002).

When a firm's environment moves to a new turbulence level, the responsiveness of the firm's capability to the environment stimuli must also move to a different level. If the capability fails to keep pace with the environment, the firm is in danger of losing its competitive position and becoming unprofitable (Ansoff and McDonnell, 1990). Thwaites and Glaister (1992) point out that different response despite perception of the same challenges, may be due to differences in a firm's resources or capacities. Another possible reason for the difference in strategic responses that are found is the level of organizational slack. Slack is defined as the differences between the resources available to the organization and the total requirements of the members of the organizational coalition.

Strategic responses can be categorized according to the dimension of magnitude, domain, and speed, and they conceptualize resources as tangible and intangible. The theoretical framework is meant to understand the relationships among; strategic response to new technologies; organizational resources; and firm performance (Lee and Grewal, 2004).

1.1.3 The Microfinance Sector in Kenya

Microfinance sector in Kenya is set up by the banking industry. These microfinance institutions in Kenya are registered under eight different Acts of Parliament namely; the Non-Governmental Organizations Coordination Act; The Building Societies Act, the Companies Act; the Banking Act; and the Kenya Post Office Savings Bank (KPSOB) Act (Omino, 2005).

Over 100 organizations, including about 50 NGOs practice some form of microfinance business in Kenya. About 20 of the NGOs practice pure micro financing; six have been licensed by Central Bank of Kenya to carryout deposit taking activities while the rest practice micro financing alongside social welfare activities. Major players in the sector include Faulu Kenya, Kenya Women Finance Trust (KWFT), REMU, RAFIKI, WEDCO Limited, Small and Medium Enterprise Program (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust). The Kenya Post Office Savings Bank (KPSOB) is also a major player in the sector but only to the extent of providing savings and money transfer facilities.

Many microfinance NGOs have successfully replicated the Grameen Bank method of delivering financial services to the low-income households and MSEs (Omino, 2005).

In Kenya, like in many other countries, approaches to the regulation of MFIs are complicated by the fact that many institutions are involved in providing microfinance services under different legal structures. This presents a challenge in identifying an appropriate regulatory approach, which is conducive to the development of the sector while providing adequate flexibility to microfinance activities (Mulei and Masai, 2006).

Micro Finance Bill of 2006 regulates the MFI and defines procedures for their operations, entrance, exit, and ultimately creates an environment for fair competition and efficiency in the sector. Supervision encompasses all means by which the regulator enforces compliance with a given legal and regulatory framework (Mullei and Masai, 2006).

1.2 Research Problem

According to resource dependence perspective, organizational choice is limited by a variety of external environmental pressures which are collective and interconnected and organizations must be responsive to external demands and expectations in order to survive (Pfeffer, 1982). Organizations are more likely to accede to the values and requirements of the internal and external environment when the environment is highly interconnected. Resource dependence theorists suggest that interconnectedness facilitates the voluntary diffusion of norms, values, and shared information (DiMaggio and Powell, 1983).

Despite the significant contribution of microfinance institutions to the Kenyan economy, they are faced by many challenges and constraints due to the volatile environment in which they operate. The MFIs have therefore to adopt some strategic responses to the environment for their survival and to ensure they gain competitive advantage.

Several studies have been carried out on strategic responses of firms to the changes in the environment in a number of industries. Kariuki (2007) found out that small firms make adjustments to their strategic variables depending on their uniqueness to ensure survival. Kathuiku (2005) recommends that companies scan their immediate for survival purposes in a study of the strategic responses to changes in the environment by the cooperative bank of Kenya. Mathenge (2008) studies strategic responses of small and medium sized enterprises operating within the Nairobi Central Business district to change in their environment. Several studies have also been carried out on microfinance institutions (MFIs) for example Elizabeth (2011) studied micro finance and financial empowerment of women in Kenya and Geoffrey (2011) studied the relationship between capital structure and profitability of micro finance in Kenya but there has been no study carried out to establish and strategic responses adopted by MFIs operating in Kenya. Therefore the study sought to address the strategic response of microfinance institutions to the environmental changes in Kenya, as the knowledge gap necessitating this research study. This study identified the strategies adopted by licensed microfinance institutions in Kenya in the light of a rapidly changing, volatile and highly competitive environment.

1.3 Research Objectives

The study will;

- i) Establish the challenges MFIs face from their external environment in Kenya.
- ii) Identify the strategic responses by MFIs to the environmental changes in Kenya.

1.4 Value of the study

This study will be useful in a number of ways. Particular, the study;

It will assist academicians and scholars interested in the microfinance sector operations and activities, MFIs and other financial institutions in general.

It will assist the MFIs in the formulation of policies, standards, guidance and procedures of undertaking the operations and activities of managing these institutions.

It will add onto the foundation that is being laid in research on issues of MFIs as a financial institution meant to alleviate poverty among the low-income households.

It will act as a resource for the government in understanding the need for MFIs to be left to operate independently from other large commercial institutions and banks in managing their financial operations and activities.

It will assist the MFIs management and the financial institution industry in having a clear insight of the challenges and benefits of operating these MFIs in the society.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses essential issues that form the background of the study. It is organized systematically starting from the conceptual to theoretical literature. It also addresses the empirical evidence of previous studies on the area of strategic response of institutions to environmental changes.

2.2 The Concept of Strategy

Strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization. The strategy an organization implements is an attempt to match the skills and resources of the organization to the opportunities found in the external environment. Thompson and Strickland (2002), they point out that each organization has certain strengths and weaknesses. The actions of strategies the organization implements should be directed toward building strengths in areas that satisfy the wants and needs of consumers and other key actors in the organizations external environment.

Pearce and Robinson (2007) define a strategy as the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive whole. Porter (1980), states that strategy is creating a fit among a company's activities. The success of a strategy depends on doing many things well not just a few and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability.

Ansoff and McDonell (1990), states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategy problem. The strategy problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of an organization's core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment and organizations internal capabilities.

2.3 The External Environment and its Impact on the Organization

According to Mintzberg and Quinn (1991), there are many pressures on the business community; environmental pressures are now considered equally as important as any other pressure such as financial and operational. Therefore, managers are expected to become more environmentally responsible and conscious. However, Campion and White (1999) argued that the focus on the environmental impact of the company is a reactive response to increased general environmental concern rather than a proactive approach to environmental problems.

A host of external factors influence a firm's choice of direction, action and ultimately its organizational structure and internal processes. These factors which constitute the external environment can be divided into three categories, which include the remote environment, industry environment and the operating environment. These factors are discussed below;

Pearce and Robinson (2007), states that the direction and stability of political factors are a major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which the firms must operate. Political constraints are placed on firms through fair trade decisions, antitrust laws, tax programs, minimum wage legislation, pollution and pricing policies and many other actions aimed at protecting employees, consumers, the general public and the environment. However, some political actions are designed to benefit and protect firms such as potent laws and government subsidies. Thus political factors may either limit or benefit the firms they influence.

Legal factors which include laws and regulations are most commonly restrictive; they tend to reduce the potential profits of firms. Thus the government can affect business opportunities through tax laws, economic policies and international trade rulings. Omino (2005), identify government stability, taxation policy, foreign trade regulations and social welfare policies as the main factors that play a significant role in the legal environment. Omino (2005), also identifies several laws and regulations that impact on the legal factors. These include laws relating to competition, employment, health and safety, product safety and the environment among others.

Social factors that affect a firm involve the beliefs, values, attitudes, opinions and lifestyles of persons in the firm's external environment, as developed from cultural, ecological, demographic, religious, educational and ethnic conditioning. As social attitudes change, so does the demand for the various types of clothing, books, and leisure

activities among others. Like other forces in the remote external environment, social forces are dynamic, with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors (Pearce and Robinson, 2007).

Technological factors might influence any firm's operations and activities. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products or for improvements in existing products or in manufacturing, banking and marketing techniques. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility. Thus, all firms and mostly those in turbulent growth sectors must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services. Technological forecasting can help protect and improve the profitability of firms in growing industries. (Johnson; Scholes; and Whittington, 2005).

Economic factors concern the nature and direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. On both the national and international level, managers must consider the general availability of credit, the level of disposal income, and the propensity of people to spend.

Prime interest rates, inflation rates, and trends in the growth of the gross national product are other economic factors they should monitor closely (Pearce and Robinson, 2007).

Environment or Ecological factor have been identified by Mintzberg and Quinn (1991) as the most prominent factor in the remote environment as being reciprocal relationship between business and ecology. They define ecology as the relationship among human beings and other living things and the air, soil and water that support them. Threats to our life – supporting ecology caused principally by human activities in an industrial society are commonly referred to as pollution. Specific concerns include global warming, loss of habitat and biodiversity, air, water and land pollution.

2.4 Strategic Responses

Although organizations are faced with environmental changes, they find it difficult to change in ways inconsistent with their prevailing form (Greenwood and Hinings, 1993). Some organizations do change their form, this is especially true for organizational that find their distinctive capabilities no longer applicable in a rapidly changing environmental context. However organizations that do change form in response to environmental shifts are in effect setting back the liability of newness clock (Dess; Ireland and Hitt (1990).

Galbraith and Kazanjian (1986) argue that for an organization to succeed in an industry, it must select a mode of strategic behaviour that matches the level of environmental turbulence and develop a resource capability which complements the chosen mode. They identify three distinct modes of strategic behaviour. The first mode is reactive and driven

by the environment and the second mode is pre-emptive and seeks to anticipate future events and prepare for them. The third mode is the most aggressive stance where organizations not only seek to identify future scenarios but also work to bring change about – strategic response can be categorized according to the dimensions of magnitude, domain, and speed, and they conceptualize organizational resources as tangible and intangible. The theoretical framework is meant to understand the relationships among; strategic response to new technologies; organizational resources, and; firm performance (Shortell, et al., 1990).

Thus, it can be theorized that is an organization responds to an environmental shift in ways consistent with an organizational form that is better suited to the emerging environment, but is unable to establish the necessary competencies and configurations of strategy to make a between form change, the organization's performance may not be enhanced (Greenwood and Hinings, 1993). Meyer (1982) point out that different response, despite perception of the same challenges, may be due to differences in a firm's resources and capabilities. Another possible reason for the difference in strategic responses that are found is the level of organizational slack.

Planned strategic response involves how the type and the timing of response differ among firms. In firms engaged in planned strategic response, one would expect to find anticipation of threats and opportunities to be matched by anticipatory response (Ansoff and McDonnell, 1990). They again argue that many firms that engage in forecasting exhibit the same procrastination behaviour of reactive firms. They attribute this behaviour

to the nature of forecasted information. In many firms, forecasts of economic conditions, sales, earnings and costs are extrapolative in the sense that they project past performance patterns into the future. Strategic responses for competitive advantage require business managers to evaluate and choose strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The two most prominent sources of competitive advantage can be found in the business cost structure and its ability to differentiate the business from competitors (Prahalad and Hamel, 1990).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design was a descriptive survey to assist the researcher to identify the strategic responses used by the MFIs – This research design was appropriate for the study as it is concerned with specific predictions, narration of facts and characteristic concerning an individual, group or situation (Kothari, 2004).

3.2 Target Population

The study population comprised of the six licensed deposit taking microfinance institutions in Kenya. These are Faulu Kenya, Rafiki, Uwezo, Kenya Women Finance Trust, Smep and Remu.

3.3 Data Collection

The study collected data by use of questionnaire. The questionnaire was divided into two main sections. The first section aimed at gathering the general background information. The second section covered the strategic responses and environmental changes of microfinance institutions. The drop and pick method was used to administer the questionnaires to the targeted respondents. In this study top management are the expected respondents since it's their responsibility to formulate and implement organization strategies.

3.4 Data Analysis

The collected data was analyzed using descriptive statistics. This involved the use of frequency tables, percentages, rank ordering and mean scores. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the objective of the study. Percentages revealed the proportions of different attributes being studied for relative comparison. Rank ordering helped the researcher to rank different attributes/variables in order of their representation to address the objectives of the study. Mean scores, rating scales such as Likert Scales were used to analyze the data collected.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, findings, interpretation and presentation.

4.2 Data Analysis

Data was analyzed using descriptive tools where frequency, percentages, means as well as standard deviations were used to interpret the findings. The target population was the six licensed deposit taking microfinance institutions in Kenya. These are Faulu Kenya, Rafiki, Uwezo, Kenya Women Finance Trust, Smep and Remu.

4.3 Findings of the study

The study was based on establishing the challenges MFIs face from their external environment in Kenya as well as identifying the strategic responses by MFIs to the environmental changes in Kenya.

Table 4.1: Number of employees in the institution

	Frequency	Percent
20 to 25	4	66.7
Above 25	2	33.3
Total	6	100.0

Source: Author (2012)

Findings on the number of employees in the microfinance institutions showed that majority (66.7 percent) have between 20 and 25 employees while 33.3 percent have above 25 employees. This implies that majority of the microfinance institutions work with few workers especially those who just entered the industry. This is because their institution, being new in the market does not have many customers and so have few activities which can be handled by few workers.

Table 4.2: Type of Ownership

	Frequency	Percent
Sole	1	16.7
Partnership	3	50.0
Limited company	2	33.3
Total	6	100.0

Source: Author (2012)

Concerning the type of ownership, majority (50 percent) of the microfinance institutions operate as partnership, 33.33 percent as limited companies and 16.67 percent as sole businesses. This implies that majority of microfinance institutions operate as partnerships.

An organization entering into the financial industry is subject to various advantages like credit facilities from already established institutions. On the other hand however, there are many risks that come along as the organization expands for example bankruptcy, members leaving to join other upcoming institutions and so it is important to operate as a

limited company so that the liabilities will be limited or as partnership so as to share the risk when it occurs.

Table 4.3: Annual turnover Kenya shillings

	Frequency	Percent
0 to 20 million	1	16.7
21 to 40 million	2	33.3
41 to 60 million	2	33.3
61 to 80 million	1	16.7
Total	6	100.0

Source: Author (2012)

The researcher also wanted to know the level of annual turnover sales. From the findings, 33.3 percent of the microfinance institutions have annual turnover sales of either between 21 and 40 million shillings or between 41 and 60 million shillings while 16.7 percent have annual turnover of between 61 and 80 or 81 million shillings and above. This indicates that most microfinance institutions in Kenya make sufficient sales to keep them thriving in the industry. This shows reduced risks associated with the industry which is a motivation for more investors to venture into the industry.

4.3.1 Challenges MFIs face from their external environment in Kenya

Study on the various factors that affect operation of microfinance institutions showed that economic factors, political and legal factors and external environmental factors affected the operations of the microfinance institutions to a very large extent while political factors affect operation to a large extent. In addition to that, social factors and technological factors also affect operation of microfinance institutions to a moderate extent.

4.3.2: The extent to which various environmental challenges affect operation of the business

The table below analyses the extent to which political, technological, economic and social factors affect operation of MFIs.

Table 4.4: How they affect operation of the business

	Very great	Great	Moderate	Little	Not at all
Political factors and legal factors (political stability and taxation policy)	66.7	33.3	-	-	-
Technological factors	50.0	33.3	16.7	-	-
External environmental factors	66.7	16.7	16.7	-	-
Economic factors (business cycles, interest rates, inflation)	83.3	16.7	-	-	-
Social factors (beliefs, values, attitudes and lifestyles of persons)	50.0	33.3	16.7	-	-

Source: Author (2012)

4.3.3 Strategic responses by MFIs to the environmental changes in

Kenya

This subsection addressed the second objective of the study particularly on whether the organization has a vision for the future, whether the organization has any set objectives, various strategies adopted, the extent to which various strategies were reviewed after economic recess and the other factors that make the organization remain competitive in the industry.

4.3.3.1 Whether the organization has a vision for the future

On whether the organization has a vision for future, majority (83.3%) of the respondents showed that microfinance institutions have visions for the future while 16.7 percent said that the institutions had no future visions.

Table 4.5: Whether the organization has a vision for the future

	Frequency	Percent
Yes	5	83.3
No	1	16.7
Total	6	100.0

Source: Author (2012)

This implies that majority of microfinance institutions have visions they are aiming at. Having a vision to work towards as an organization is so crucial since it enable one to know whether the organization is progressing or stagnating .The faster the organization moves towards its vision, the better it becomes in terms of operation and service provision.

4.3.3.2 Whether the organization has any set objectives

Regarding whether the micro financial institutions had set objectives, majority (83.3 percent) of the respondents said that they had set objectives while 16.67 percent said that they had no set objectives.

Table 4.6: Whether the organization has any set objectives

	Frequencies	Percent
Yes	5	83.3
No	1	16.7
Total	6	100.0

Source: Author (2012)

This indicates that most microfinance institutions have set goals and objectives as they carry on with their activities. As an organization especially one which aims at expanding its scale of operation, it is important to set objectives to guide in the line of operation.

4.3.3.3 Various Strategies Adopted

Findings on various strategies adopted showed that majority of the microfinance institutions have to a large extent adopted the strategy of customer service. They have also not undermined such strategies like product differentiation and speed strategy. In addition to that, they have also put in place the strategy of being low cost leaders.

Table 4.7: Various strategies adopted

	Very great	Great	Moderate	Little	Not at all
Product differentiation (Having different products for different customers)	50.0	33.3	16.7	-	-
Being low cost leaders (Quoting reasonable prices to customers)	33.3	16.7	33.3	-	16.7
Speed strategy (Meeting customers' needs much faster than competitors)	50.0	33.3	16.7	-	-
Customer service (Customer values, customer care, brand image and communication)	66.7	16.7	16.7	-	-

Source: Author (2012)

This implies that among other strategies, microfinance institutions have prioritized the strategy of customer service. This strategy is of significant importance especially for institutions operating in a very competitive industry like microfinance institutions.

This concurs with what (Prahalad and Hamel, 1990) said. They noted that the two most prominent sources of competitive advantage can be found in the business cost structure and its ability to differentiate the business from competitors.

4.3.3.4. The extent to which various strategies were reviewed after economic recess

Regarding the extent to which various strategies adopted were reviewed after economic recess, majority of the microfinance institutions reviewed the strategy of customer service to a very large extent. They also reviewed the speed strategy to a large extent. In addition

to that, they also, though to a moderate extent reviewed the strategy of product differentiation and the strategy of being low cost leaders.

Table 4.8: The extent to which various strategies were reviewed after the challenges were identified

	Very great	Great	Moderate	Little	Not at all
Product differentiation (Having different products for different customers)	33.3	33.3	16.7	16.7	-
Being low cost leaders (Quoting reasonable prices to customers)	16.7	33.3	16.7	16.7	-
Speed Strategy (Meeting customers' needs much faster than competitors)	50.0	33.3	16.7	-	-
Customer service(customer values, customer care, brand image and communication)	83.3	16.7	-	-	-

Source: Author (2012)

Reviewing and implementing adopted strategies is of significant importance if the firm is to progress and become effective in its operation.

4.3.3.5 Other factors that make the organization remain competitive in the industry

Concerning the factors that make the organization remain competitive in the industry, access to credit facilities from major financial institution is a factor that contributes to a large extent. Also credit from suppliers contributes to competitiveness of an organization

to a large extent. Though it may seem minor, access to insurance facilities also contribute to an organization’s competitiveness to a moderate extent.

Table 4.9: Other factors that make the organization remain competitive in the industry

	Very great	Great	Moderate	Little	Not at all
Access to credit facilities from major financial institution	83.3	16.7	-	-	-
Access to Insurance facilities	50.0	16.7	16.7	16.7	-
Credit from Suppliers	66.7	16.7	16.7	-	-

Source: Author (2012)

4.4 Discussion

Some policy implications can be drawn from the results of this study. Given the relevance and importance of identifying the challenges micro finance institutions face from their external environments in Kenya organizations should adapt practices aimed at responding to the challenges faced and formulate strategies that will assist them remain competitive in the industry.

From the study it is evident that organization culture, top management, technology, organization vision and mission and strategies may affect profitability and competitiveness of a firm to a great extent, thus need for firms to critically focus on since if they are not considered, they may be a setback for a firm to effectively respond to challenges they face.

This study also reveals that, like other forces in the remote external environment, social forces are dynamic; MFIs are faced with challenges that entail political, socio-cultural and economic change resulting from the efforts of the institutions to satisfy their desires and needs by controlling and adapting to environmental factors (Pearce and Robinson, 2007). Galbraith and Kazanjian (1986) argue that for an organization to succeed in an industry, it must select a mode of strategic behaviour that matches the level of environmental turbulence and develop a resource capability which complements the chosen mode. Environment or Ecological factor have been identified by Mintzberg and Quinn (1991) as the most prominent factor in the remote environment as being reciprocal relationship between business and ecology.

Technological forecasting can help protect and improve the profitability of firms in growing industries. (Johnson; Scholes; and Whittington, 2005). Like other forces in the remote external environment, social forces are dynamic, with constant change resulting from the efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors (Pearce and Robinson, 2007).

The study also reveals that, microfinance industry is one of the industries with very high competition with many new firms entering into the industry. To compete efficiently therefore, an organization in a competitive industry needs good access to credit facilities from major financial institution. This implies that no matter how big an organization is or how large the number of employees it has, if it does not have sufficient access to financial services and if it operates under unfavourable policies then its efficiency will be

limited. It's also worth noting that political instability together with poor access to infrastructure are not only challenges to an organization but also a threat to the very survival to the organization. Finance is the most significant input especially to micro financial institutions if they are to operate efficiently. Pearce and Robinson (2007) define a strategy as the pattern or plan that integrates organizations major goals, policies and action sequence into a cohesive whole. The theoretical framework is meant to understand the relationships among; strategic response to new technologies; organizational resources, and; firm performance (Shortell, et al., 1990).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Summary of Findings

This study used descriptive survey to investigate the challenges MFIs face from their external environment in Kenya and to identify the strategic responses by MFIs to the environmental changes in Kenya. The target respondents were the six licensed deposit taking microfinance institutions in Kenya. These are Faulu Kenya, Rafiki, Uwezo, Kenya Women Finance Trust, Smep and Remu.

Regarding whether the organization had visions, majority (83.33 percent) of the respondents showed that microfinance institutions have visions while 16.67 percent said that the institutions had no visions. On whether the micro financial institutions had set objectives, majority (83.3 percent) of the respondents said that they had set objectives while 16.67 percent said that they had no set objectives. Findings on various strategies adopted showed that majority of the microfinance institutions have to a large extent adopted the strategy of customer service. They have also not undermined such strategies like product differentiation and speed strategy. In addition to that, they have also put in place the strategy of being low cost leaders. Regarding the extent to which the organization was affected by economic recess, majority (50 percent) of the microfinance institutions were affected to a very large extent. The rest of the firms (16.67 percent)

were however affected to a great extent, to a moderate extent and to a less extent respectively.

Regarding the extent to which various strategies adopted were reviewed after economic recess, majority of the microfinance institutions reviewed the strategy of customer service to a very large extent. They also reviewed the speed strategy to a large extent. In addition to that, they also, though to a moderate extent reviewed the strategy of product differentiation and the strategy of being low cost leaders. Findings on the extent to which various factors affecting operation of microfinance institutions showed that Economic factors, political and legal factors and external environmental factors affected the operations of the microfinance institutions to a very large extent while political factors affect operation to a large extent. In addition to that, social factors and technological factors also affect operation of microfinance institutions to a moderate extent.

With regard to the challenges currently facing the organization, it was evident that unfavourable policies and limited access to financial services are challenges that affect microfinance institutions to a very large extent. Also, political instability and poor access to infrastructure were found to be part of the challenges affecting microfinance institutions to a large extent. In addition to that, inadequate access to skills and technology together with unsatisfactory health and safety standards contribute in posing challenges to microfinance institutions though to a moderate extent. Limited access to information is another challenge facing the microfinance institutions.

Concerning the factors that make the organization remain competitive in the industry, access to credit facilities from major financial institution is a factor that contributes to a large extent. Also credit from suppliers contributes to competitiveness of an organization to a large extent. Though it may seem minor, access to insurance facilities also contribute to an organization's competitiveness to a moderate extent.

5.2 Conclusions

The study revealed that most of microfinance institutions operate as partnerships. An organization entering into the financial industry is subject to various advantages like credit facilities from already established institutions. On the other hand however, there are many risks that come along as the organization expands for example bankruptcy, members leaving to join other upcoming institutions and even high advertisement costs due to high competition. This therefore calls for the need to operate as a limited company so that the liabilities will be limited or as partnership so as to share the risk when it occurs. Microfinance institutions also have visions they are aiming at in the future. Having a vision to work towards as an organization is so crucial since it enable you to know whether the organization is progressing and stagnating .The faster the organization moves towards its vision, the better it becomes in terms of operation and service provision.

To be effective in their work, most microfinance institutions have set goals and objectives as they carry on with their activities. As an organization especially one which aims at expanding its scale of operation, it is important to set objectives to guide in the line of

operation. Among other strategies, microfinance institutions have prioritized the strategy of customer service. This strategy is of significant importance especially for institutions operating in a very competitive industry like micro finance institutions.

No matter how big an organization is or how large the number of employees it has, if it does not have sufficient access to financial services and if it operates under unfavourable policies then its efficiency will be limited. It's also worth noting that political instability together with poor access to infrastructure are not only challenges to an organization but also a threat to the very survival to the organization. Finance is the most significant input especially to micro financial institutions if they are to operate efficiently. Microfinance industry is one of the industries with very high competition due to many new firms entering into the industry. To compete efficiently therefore, an organization in a competitive industry needs good access to credit facilities from major financial institution.

5.3 Recommendations for Policy and Practice

To address the challenges that microfinance institutions face from their external environment in Kenya, the research recommends that:

1. The government should impose favourable policies to enable the microfinance institutions in the Kenya to compete effectively so that they can continue with their operation. This in turn increases employment opportunities which improve economic development.

2. Microfinance institutions should adopt strategies that will improve their performance and enable them to compete effectively in the industry.
3. Goals and objectives should also be set by the microfinance institutions. This will enable them assess their performance whether they are growing, stagnating or deteriorating.
4. Microfinance institutions should also adopt measures that will enable them to predict environmental changes so that they can be in a position to act in advance in response to the anticipated changes. This will give them advantage over the competing organizations when such environmental changes actually occur.

5.4 Limitations of the study

The major limitation was the fact that some respondents were either unavailable or unwilling to answer the questions. In addition, the researcher focused only on the challenges faced by MFIs from external environments and therefore did not focus on the other challenges especially on the internal processes, policy formulations as well as the control monitoring and evaluation aspects.

5.5 Recommendations for further studies

The study covered the determination of challenges faced micro finance institutions and the strategic responses adapted. However there's need for baseline study to be carried out covering the effectiveness of strategic responses adapted by firms. In addition, the researcher would give attention on the impact of regulation to the financial institutions to help identify key merits and demerits of regulation by the central bank of Kenya.

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APPENDICES

Appendix: Questionnaire

STRATEGIC RESPONSES OF LICENSED MICROFINANCE INSTITUTIONS

IN KENYA TO ENVIRONMENTAL CHANGES

SECTION ONE: GENERAL BACKGROUND INFORMATION

1. What is the name of your organization
2. Title of the respondent
3. Number of years you have worked in the organization
 - 0-5 [] 6-10 [] 11-15 [] 16-20 [] Over 21 []
4. What is your Gender?
 - Male []
 - Female []
5. Select the appropriate age bracket
 - 18-25 yrs [] 26-30 yrs [] 31-35 yrs [] 36 yrs and above []
6. Your level of education
 - Secondary [] University []
 - College [] Others []
7. Number of employees in your institution
 - 10-15 [] 15-20 [] 20-25 [] above 25 []
8. Number of workers employed
 - 0-20 [] 21-40 [] 41-60 [] 61-80 [] 81-100 []
9. Type of Ownership
 - Sole [] Partnership [] Limited Company []

10. Annual Turnover/Sales in Kenya Shillings

- 0-20 million [] 21-40million [] 41-60million [] 61-80million
8million and above []

SECTION TWO: STRATEGIC RESPONSES ADOPTED

11. Does your organization have a vision for the future?

Yes [] No []

12. Do you have any set objectives for your organization

Yes [] No []

13. How do you describe competition in your industry?

a) Weak competition []

b) Strong competition []

c) Very strong competition []

d) Hyper competition []

14. Product differentiation (Having different products for different customers)

1 2 3 4 5

Very great Great Moderate Little Not at all

15. Being low cost leaders (Quoting reasonable prices to customers)

1 2 3 4 5

Very great Great Moderate Little Not at all

16. Speed Strategy (Meeting customers' needs much faster than competitors)

1 2 3 4 5

Very great Great Moderate Little Not at all

17. Customer service (Customer value, customer care, brand image, communication)

1 2 3 4 5

Very great Great Moderate Little Not at all

18. Do you regularly review your strategies?

Yes [] No []

19. If yes, how often?

Once a month [] After 2-3 months []

Mid of the year [] End of the year []

Never at all []

20. To what extent was your organization affected by the economic recess?

1 2 3 4 5

Very great Great Moderate Little Not at all

21. To what extent did you review the following strategies after the economic recess?

- Product differentiation

1 2 3 4 5

Very great Great Moderate Little Not at all

- Speed strategy

1 2 3 4 5

Very great Great Moderate Little Not at all

- Customer Service

1 2 3 4 5
 Very great Great Moderate Little Not at all

22. What effect did the change of above strategy have on your organization in terms of profitability and market positioning compared with competitors?

SECTION THREE: THE ENVIRONMENTAL CHANGES

23. Please indicate other factors that make you remain competitive in your industry

Access to credit facilities from major financial institution

1 2 3 4 5
 Very great Great Moderate Little Not at all

Access to Insurance facilities

1 2 3 4 5
 Very great Great Moderate Little Not at all

Credit from Suppliers

1 2 3 4 5
 Very great Great Moderate Little Not at all

24. To what extent do the following factors affect the operations of your business?

- **Political and Legal factors** (Political stability and taxation policy)

1 2 3 4 5

Very great Great Moderate Little Not at all

- **Economic Factors** (business cycles, interest rates, inflation)

1 2 3 4 5

Very great Great Moderate Little Not at all

- **Social Factors** (beliefs, values, attitudes and lifestyles of persons)

1 2 3 4 5

Very great Great Moderate Little Not at all

- **Technological Factors** (Innovation and improvement of products and techniques)

1 2 3 4 5

Very great Great Moderate Little Not at all

- **External Environmental Factors** (global warming and pollution)

1 2 3 4 5

Very great Great Moderate Little Not at all

25. Are there any challenges currently facing your

Yes [] No[]

26. If yes, kindly indicate the challenges (tick appropriately)

Unfavourable policies []

Political instability []

Limited Access to financial services []

Inadequate Access to skills and technology []

Poor access to infrastructure []

Limited Access to information []

Unsatisfactory Health and safety standards []

Others

27. In your own words, please comment on the future of your business.
