INFLUENCE OF STRATEGY IMPLEMENTATION ON COMPETITIVENESS OF MICRO-FINANCE INSTITUTIONS IN KENYA

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ABSTRACT

Despite the over-emphasized introduction of new strategies, firms are still recording minimal performance and competition rate. This therefore raises the question on whether these firms implement the intended strategies or not. On the other hand, Micro Finance Institutions (MFIs) have continually faced tremendous challenges despite their vital role in the country’s economy. These firms face high range of competition from already established financial institutions such as the commercial banks. The strategies introduced by these firms have however not bared much fruits since their competitiveness still remains minimal. It is against this backdrop that the study sought to establish the influence of strategy implementation on the competitiveness of MFIs in Kenya. Specifically, the study sought to find out the influence of resources allocation, roles and responsibilities, leadership styles and organizational structure on the competitiveness of MFIs in Kenya. The study employed descriptive research design and targeted all the 48 MFIs in Kenya. A census was used whereby all the 48 MFIs were included in the study. Purposive sampling was used to identify 5 employees from each of the MFI (human resource, procurement, accounting, marketing and finance managers) giving a total of 240 respondents as the sample size. Self-structured questionnaire was used to collect data for the study. The data was anlaysed by mixed method where both qualitative and quantitative data was analysed. Quantitative data was analysed by use of inferential and descriptive statistics while qualitative data was analysed by use of content analysis. The data was presented in form of tables, pie-charts and bars-graphs. The findings from the study revealed that allocation of resources, roles and responsibilities, leadership styles and organizational structure had a significant influence on the competitiveness of MFIs in Kenya. The study concluded that through adequate resource allocation and ensuring roles are properly assigned enhanced competitiveness. The study recommended that there should be proper leadership styles where the employees are involved in decision making hence contributing to their productivity which is essential in attaining competitiveness.

Keywords: Strategy Implementation, Resource Allocation, Roles and Responsibilities, Leadership Style, Organizational Structure and Firm Competitiveness.
1.0 INTRODUCTION

1.1 Background of the Study

Organizations operate in a very competitive environment. To develop and sustain competitive advantage, firms practice strategic management. Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantage (Gregory, Lumpkin & Taylor, 2005). It involves decision-making about an organization’s objectives (Gregory, 2007). According to Davenport (2007) creating a brilliant strategy is nothing compared to executing it successfully. Execution is critical to success, without a carefully and well planned approach to execution, strategic goals cannot be attained. Therefore, in striving to achieve intended results, good strategies should be properly implemented. Strategy implementation entails converting the strategic plan into action and then into results. This strategic process is geared towards improving a firm’s performance.

In Kenya, micro finance institutions (MFIs) were pioneered by non-governmental organization (NGOs) in collaboration with the government. The government aided the development of micro finance institution (MFIs) by providing the policy framework and platform for donor support; these NGOs include World Bank, USAID (U.S. Agency for International Development), UNDP (United Nations Development Programme) and later the commercial banks supported NGOs by financing the operations (Mutua, 2006).

Micro finance institutions in Kenya play an essential role in the economic development by serving the population ignored by the big banks. This is the micro savings and credit service where banks failed to meet the needs of the poor customers and citizens. Currently, statistics indicate that banks serve approximately 22.6% of the population, 17.9% is served by the micro population unreached by any financial service. In the last three decades, there has been emergence of numerous MFIs to serve this segment. By serving the enormous poor population successfully there has been transformation of some MFIs to fully fledged banks like Equity Bank, KRep Bank (now Sidian Bank), Kenya Women Finance Trust (KWFT) and Family Bank (Mutua, 2006).

Strategy implementation consists of plans and strategies processes that are put into action to reach desired goals. Hrebinjak (2012) refers strategy implementation as a key component of management
process in any organization development. It involves application of a lot of effort and resources by the organization for its implementation.

One of the main goals of every modern organization is to achieve competitive advantage. A competitive advantage according to McNamara, Aime and Vaaler (2005) is the ability of an organization to offer products and/or services that exceed those of their competitors or offer products with the same quality as their competitors but at a lower cost. This means that for an organization to gain competitive advantage it must either invest on systems and processes to enhance quality or focus on saving costs to minimize the cost of production while matching the quality with that of the competitors (Ainuddin, Beamish, Hulland & Rouse, 2007).

According to Johnston (2010), Kenya’s microfinance industry has come a long way since the 1980s, and particularly since the landmark Microfinance Intermediaries Act of 2009. The country now has over 20 deposit-taking microfinance intermediaries (MFIs) operating under a regulatory framework assessed by the Economist Intelligence Unit (EIU) as the best in Africa (EIU 2010).

1.2 Statement of the Problem

Competitiveness of Micro Finance Institutions has been at the stake with more than 70% of MFIs recording losses, closing operating doors or relaying employees to save on operational costs (Katua, Mukulu & Gachunga, 2014). It remains largely unclear whether MFIs are adequately strategic in running their businesses given that they are faced by the challenge of limited growth and expansion. This is underscored by the fact that less than 20 MFIs are hitherto registered with the Association of Microfinance Institution of Kenya (AMF-Kenya) as opposed to a total of 39 commercial banks registered with the Central Bank of Kenya (CBK). Performance and competitiveness are related in that a firm cannot be sustained and grow if it fails to post sound performance. MFIs have been around for decades and have primarily been serving the low cadre members of the society (EUI, 2010).

Empirical studies have revealed mixed results on the relationship between strategy implementation and organizational performance/competition/growth. For instance, Sage (2015) and Njagi and Kombo (2014) found that strategy implementation was a major step towards promoting firm performance than even strategy formulation. On the other hand, Scholes (2012) and Jayachandran
and Bearden (2015) found that strategy implementation had insignificant effect on performance and argued that the choice of the strategy was most important as far as performance was concerned. The studies available locally on strategic management prospects and their effects on the overall outcomes have not been adequately addressed. The MFIs can grow faster as envisioned by Kenyan Strategic Plan (RoK, 2008) through proper practices of strategic management and when it is very clear to them the factors they need to pay attention to when implementing their strategies. It is on this backdrop that the current study sought to establish the influence of strategy implementation on competitiveness of MFIs in Kenya.

1.3 Objectives of the Study

i. To find out the influence of resources allocation on the competitiveness of MFIs in Kenya.
ii. To determine the influence of roles and responsibilities on the competitiveness of MFIs in Kenya.
iii. To assess the influence of leadership styles on the competitiveness of MFIs in Kenya.
iv. To determine the influence of organizational structure on the competitiveness of MFIs in Kenya.

1.4 Research Questions

i. What is the influence of access to resources on the competitiveness of MFIs in Kenya?
ii. To what extent does roles and responsibilities influence the competitiveness of MFIs in Kenya?
iii. In which way do leadership styles influence the competitiveness of MFIs in Kenya?
iv. How does organizational structure influence the competitiveness of MFIs in Kenya?

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Resource Dependence Theory

Resource is a supply of assets such as money, materials and staff that enables organizations to function and prosper (Cullati, Stéphane, Kliegel, Widmer & Eric, 2018). Among all these resources, money is the most important because it activates other resources. Money also is a monetary resource in a business oriented economies because it is a determinant of expansion or
contraction of other resources (Samuelson & Nordhaus. 2004). According to Preffer and Salancil (1978), RDT is the study of the relationship between organization and its external resources. The theory further explains that organizations depend on multidimensional resources such as labor, capital, raw materials and land to operate.

### 2.1.2 Competency Theory
The competency theory was first developed by David MacClland in 1980s. Since then the theory has undergone further modifications with an aim to make it more encomium to the literature. The competency model seeks to outlay the need for organizations to focus on the abilities of the workers to handle organizational issues and be more productive to the organization. According to the competency model, the abilities and skills expressed and possessed by the team leaders as well as the team members determine the extent to which the processes in a given activity is integrated for achievement of a common goal (Wills, 2011). This theory therefore instigates the second objective of the study which is to establish the influence of roles and responsibilities on the competitiveness of MFIs in Kenya.

### 2.1.3 Contingency Theory of Leadership
Contingency theory of leadership attempts to contemplate that the methods of leadership and tactics used to provide leadership by a certain leader depends on the contextual situation in which the leader effectively develops his own style of leadership to right situation. The main goal of this theory is match the leader’s style with the compatible situation (Gupta, 2009). Contingency theory of leadership is used to create profiles of the leadership for organizations by comparing the styles with the situations that are proven to be most successful. As stated by Gupta, the theory is helps the companies to know the best types of people who would fit in each position of the organization during the openings.

### 2.1.4 Systems Theory
The systems theory was first introduced by von Bertalanffy in early 1920s with an attempt to bring out into context on the organizational formation and how it could help in enhancing organizational performance (Monks and Minow, 2007). The theory explains organizational behavior as the intersection of the effects of the multiple interrelated systems. The organization is seen as a system built by energetic input and output where the energy coming from the output reactivates the system. Social organizations are then open systems due to their material exchanges with the environment.
This theory therefore instigates the fourth objective of the study which is to establish the influence of organizational structure on competitiveness of MFIs in Kenya.

2.2 Conceptual Framework

![Conceptual Framework Diagram]

**Figure 2.1: Conceptual Framework**

3.0 METHODOLOGY

A descriptive survey approach was adopted to justify the relationship between the independent and dependent variables. The target population was the MFIs in Kenya. There were 48 MFIs in Kenya as at December 2017 and these will form the unit of analysis (AMFI, 2018). The target population was human resource, procurement, accounting, marketing and finance managers of the Micro-Finance Institutions in Kenya. This gave a total of 240 respondents.

The study used census since the targeted population is considerably small. Therefore, in our case there are 48 micro-finance institutions in Kenya each with five managers which is the target of the study. This gave a sample size of 240 respondents.
The study relied on primary data which was collected using a questionnaire. Data was analyzed qualitatively and quantitatively. Qualitative data was analyzed using content analysis whereas quantitative data was analyzed using Descriptive statistics analysis which was done by measuring central tendencies which include frequencies, means, standard deviations and regression. Descriptive statistics were done using the Statistical Package for Social Sciences (SPSS). Inferential statistics which includes correlation (r) and regression (R²) through the use of Multiple Linear Regression model was employed to establish the significance of the independent variables on the dependent variable. The following multiple regression model was applied

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Where:
- \( Y \): Competitiveness of Micro-Finance Institutions (Dependent Variable)
- \( \beta_0 \): Constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \): coefficients
- \( X_1 \): Accessibility of Resources (Independent Variable)
- \( X_2 \): Responsibilities and Roles (Independent Variable)
- \( X_3 \): Leadership Styles (Independent Variable)
- \( X_4 \): Organizational Structure (Independent Variable)
- \( e \): error term

### 4.0 FINDINGS AND DISCUSSION

#### 4.1 Descriptive Statistics

The first objective of the study was to examine the influence of resource allocation on the competitiveness of MFIs in Kenya. The findings revealed that on the first aspect that my organization is committed on allocating adequate resources to the operations to promote performance, majority of the respondents agreed as evidenced by a mean of 4.36 and a standard deviation of 0.73. The findings imply that resources are critical in promoting the strategy implementation and competitiveness. This compares with the findings by Mahasi (2016) who established that as a result of allocation of resources to the organizational operations and ensuring
the resources are effectively used ensures proper performance and efficiency thus promoting competitiveness.

The second objective of the study was to determine the influence of roles and responsibilities on the competitiveness of MFIs in Kenya. The findings revealed that on the first statement which is that there are properly articulated roles and responsibilities in our organization, majority of the respondents agreed. The findings imply that the roles and responsibilities accorded to the employees plays a key role in promoting the effectiveness and commitment of the employees which is critical to employee performance. According to Scholes (2012), strategy implementation requires that the roles and responsibilities in an organization are well articulated hence enabling the employees to focus on operations of competitiveness and strategy implementation.

The third objective of the study was to find out the influence of leadership styles on the competitiveness of the MFIs in Kenya. The findings revealed that majority of the respondents agreed that the management of the firm was committed towards involving the employees in the decision making process so as to keep them on board as evidenced by a mean of 3.93 and a standard deviation of 0.91. The findings imply that leadership styles are critical in enhancing firm competitiveness and how effective the organizations goals are achieved. The findings compare with those by Jayachandran and Bearden (2015) who established that through proper leadership styles that are people based influenced the ability of the employees to implement key strategies by the organization hence enhancing competitiveness and performance.

The fourth objective of the study was to assess the influence of organizational structure on the competitiveness of MFIs in Kenya. The findings portrayed that flexible organizational design enhances the development of the organization through enhanced communication, most of the respondents agreed with the statement. The findings imply that as a result of properly organized organization structure, competitiveness was enhanced. The findings are in line with those by Nwonu (2017) who found that organizational structure determined how effective the operations of an organization are and how departments relate to each other thus enabling them to work towards a common goal.

The respondents were asked to rate specific statements based on a five-point Likert’s scale. The findings revealed that majority of the respondents agreed with the first statement that the customer flow in our company has been increasing over the recent past as evidenced by a mean of 4.10 and
a standard deviation of 1.22. The last statement that the sales of our company have increased over the recent past, majority of the respondents agreed as portrayed by a mean of 4.27 and a standard deviation of 0.79.

4.2 Inferential Analysis of the Regression Model

The model equation was of the form:

\[ Y_s = \beta_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + \epsilon \]

The results indicate that all the variables had P-values less than the standard p-value of 0.05. The regression coefficient results were also sought as shown in table 4.1. The results revealed that the coefficient \( \beta \) for the model was 0.791 (constant) and 0.355, 0.783, 0.413, and 0.861 (variables) for resource allocation, roles and responsibilities, leadership styles and organizational structure, thus making the overall model equation to be;

\[ Y = 0.791 + 0.355X_1 + 0.783X_2 + 0.413X_3 + 0.861X_4. \]

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<th>Unstandardized Coefficients</th>
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CONCLUSIONS

The study concluded that access to resources and allocation of these resources effectively to the organizational operations had a significant influence in enhancing the achievement of the organizational goals and enhancing competitiveness. Through proper human resources,
technological infrastructure and proper financing kept the operations smoothly running hence providing a room for strategy implementation and achievement of competitive advantage.

The study concluded the sharing of roles and responsibilities in an organization had a positive influence on the competitiveness of the MFIs. The ability of the organizational management to set the employees in certain roles and responsibilities based on their competencies enabled them to have better focus thus perform better. This gives a well composed organization ready to tackle the competitors.

On the third objective, the study concluded that the leadership styles employed by the organizational leadership/management play a key role in promoting the competitive advantage of the firm. Through employee involvement and encouragement of teamwork, the work is adequately done and problem solving enhanced and this steers productivity hence achieving competitiveness.

Finally, the study concluded that organizational structure had a significant influence on the firm competitiveness. Through adoption of properly designed organizational structures, the communication and information sharing among the employees and the departments as well is enhanced thus influencing performance. Strategy implementation in such a scenario is enhanced thus providing better ground for competitiveness.

**RECOMMENDATIONS**

The study recommends that the management of MFIs should embrace proper resource allocation techniques and ensure that there are adequate resources to keep their operations smooth running through which their competitiveness is enhanced. The institutions ought to have reliable financing so as to acquire better equipment and employ appropriate human resources which are critical to their success as far as competitiveness is concerned.

The management of the MFIs should ensure that the roles and responsibilities among the employees are clearly defined and that the employees are accorded duties based on their capability and competencies so as to enhance their productivity. This will ensure that the skills are properly utilized hence enhancing competitiveness.

The organizational management should adopt the best leadership styles that are encompassed on influencing followership among the employees. The employees ought to be involved in decision
making processes while at the same time encouraging teamwork which is critical to providing direction towards organizational success.

Finally, the study recommends that the management of the MFIs should embrace and adopt a supportive organizational structure where communication and information sharing are enhanced thus ensuring collective growth and productivity. When the organizational structure is properly aligned and flowing efficiently, the coordination of the departments is enhanced and this contributes to better performance and competitiveness.

REFERENCES


