ROLE OF STRATEGIC PLANNING ON THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA: A CASE OF MICROFINANCE INSTITUTIONS IN NAIROBI

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ROLE OF STRATEGIC PLANNING ON THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA: A CASE OF MICROFINANCE INSTITUTIONS IN NAIROBI

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ABSTRACT

Interest in microfinance has grown over the years due to the sector's ability to improve the livelihood of the poor through provision of loan facilities at low interest rates. However, even with the growth in the microfinance sector, most MFIs still find challenges in coping with increased customer needs in a dynamic financial environment that require establishment of viable strategies. The main limitation facing MFIs has been performance in terms of operations, management and strategic issues. The objective of this study was to investigate the role of strategic planning process on the performance of Microfinance Institutions (MFIs) in Kenya. The researcher used descriptive research design. The Central Bank of Kenya estimated the number of legally constituted microfinance service providers at 3,460, consisting of 3,397 SACCOs, 56 MFIs, 4 Commercial Banks, 2 Building Societies, and the Kenya Post Office Savings Bank. The current number of AMFI registered members are 50 paid up members consisting of 5 Banks, 9 Microfinance Banks, 30 Retails, 4 Wholesalers, 1 Sacco and 1 Development Partner. The study was conducted in Nairobi County. This study used Association of Microfinance Institutions (AMFI) membership list as the sample frame. The study conducted a census of the total forty-three (43) MFIs located in Nairobi. Structured questionnaires were used for data collection. The study revealed that strategic planning had a bearing on the performance of MFIs in Kenya. The researcher recommends that MFIs in Kenya should take cognizance of the fact that strategic planning has an impact on their performance. Future research should identify more variables associated with organization performance like threats, opportunities, competition, regulatory regime, employee commitment and remuneration. This research study will contribute to the study of strategic management by giving relevant information on the influence of strategic planning process on organization performance. The researcher hopes that information presented in this report will help managers understand the importance of strategic planning process in realization of organizational goals.

Key Words: *Environmental Scanning, Strategy Formulation, Strategy Implementation, Strategy Evaluation*

Background of the Study

All over the world majority of the populations are living without access to financial services that many take for granted. Without access to loans, savings accounts and insurance the obstacles to overcoming poverty or retaining financial stability can be challenging. However, there is a drive to provide better financial services to people that conventional banks don't serve. These services are collectively called microfinance (Woldie, Mwita & Saidimu, 2012).

According to Marguerite (2001), microfinance refers to small-scale financial services- primarily credit and savings- provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired or sold. The concept of microfinance is not new. In the article "History of Microfinance" available on Global Envision website, savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia (Sethiya, 2010). Structured credit and savings organizations for the poor have also been around for long, providing members a way to obtain financial services. One such pioneer micro credit organization giving loans to rural poor with no security was the Irish Loan Fund system, initiated in the early 1700s by Jonathan Swift. His initiative started gradually, but by the 1840s, the Irish Loan Fund had opened over 300 branches in Ireland. The aim of Irish Loan Fund was providing loans of small amounts to the poor (Global Envision, 2012). A new approach was proposed that shifted focus from the disbursement of subsidized loans toward the setting up of local, sustainable institutions to serve the poor. In Asia, Dr. Muhammad Yunus led the way with an initiative of lending to the landless people. He started the Grameen empire which concentrated its core business in providing loan facilities to the less fortunate expanding to reach even the remote villages in Bangladesh, Philippines and Malawi (Counts, 2008).

The Microfinance Sector in Africa

In the International Finance Corporation (IFC) booklet "Microfinance in Africa: Banking for the Smallest Businesses," Thierry Tanoh, the IFC Vice President for Sub-Saharan Africa notes that microfinance is critical in reducing the effects of poverty in Africa and especially among the poorest countries and those recovering from conflicts (International Finance Corporation, 2011). It is estimated that over 3 billion people in developing countries are still unable to access loans or get effective financial services. The problem is severe in Sub-Saharan Africa, where only between 5% and 25% of households have some form of engagement with a financial institution (World Bank, 2015). According to the World Bank (2015), majority countries in Africa have large populations living on less than $1 a day. Most people are unemployed but engage in casual labour to make ends meet. With 2.7 billion people still lacking access to financial services, improving access to finance ensures the success of various economic and human development opportunities (World Bank, 2015). This leads to improved livelihoods for the poor.

Microfinance Sector in Kenya

According to the paper 'Better Business Kenya 2014' presented at the Association of Chartered Certified Accountants (ACCA) Conference, the Microfinance Institutions (MFIs) in Kenya started around the 1980s. At this time, most MFIs were started by Non-Governmental Organizations (NGOs) such as Kenya Women Finance Trust (KWFT). Some of the early MFIs were also run by church organizations such as Ecumenical Church Loan Fund (ECLOF) started by the Catholic Church and Small Medium Enterprise Program (SMEP) started by the

National Council of Churches of Kenya (NCCK). The Kenya's microfinance sector has come a long way since then and especially with the enactment of the Microfinance Act of 2006 to streamline operations of MFIs in Kenya (Central Bank Supervision Report, 2013). In addition, the microfinance sector has seen guidance offered through the formation of the Association of Microfinance Institutions of Kenya (AMFI) in 1999 to build capacity of MFIs in Kenya (Association of Microfinance Institutions, 2015).

There are 5122 registered Savings and Credit Co-operatives (SACCOs) and 44 banking institutions in Kenya (Bank Supervision Annual Report, 2013). Central Bank of Kenya (CBK) estimated the number of legally constituted microfinance service providers at 3,460, consisting of 3,397 SACCOs, 56 MFIs, 4 Commercial Banks, 2 Building Societies, and the Kenya Post Office Savings Bank. The current number of AMFI registered members are 50 paid up members consisting of 5 Banks, 9 Microfinance Banks, 30 Retails, 4 Wholesalers, 1 Sacco and 1 Development Partner. AMFI is a member-founded and member-owned institution. In its years of existence, AMFI has managed to increase its membership from the original 5 founders in to the current 50. Its membership includes: Regulated MFIs (Commercial Banks and Non-Bank Financial Institutions; Non-regulated MFIs (Credit only MFIs); Financial Wholesalers; Insurance Companies (Micro-Insurance Providers); and Capacity providers (Development Institutions) (Association of Microfinance Institutions, 2015).

The microfinance industry in Kenya is experiencing positive growth and change. The Sector has over the years evolved from charity based social and financial empowerment programmes to fully operational financial institutions, which continue to contribute towards bridging the gap of financial inclusion. Further, the microfinance sector is witnessing increased interest from commercial banks with a number of banks having either down-scaled their products or are in the process of setting up subsidiary companies to specifically engage in microfinance business. These MFIs are serving more than 6.5 million poor and middle class families with financial services. Masinde (2012) notes that "the industry (microfinance) has about 4.5 million customers with an annual growth of approximately 10%."

Despite the enactment of the Microfinance Act (2006) and the rapid growth of microfinance, 35.2 % of Kenyans are still in need of financial services (Microfinance Institutions Upgrading Initiative, 2015). Masinde (2012) quotes the Chief Executive Officer (CEO) of the Association of Microfinance Institutions (AMFI) saying that "currently there is a scramble to issue loans by microfinance institutions" showing a marked interest and influence of MFIs in the Kenyan economy. The effect of this is that low income earners can get loans at low rates and use the funds received to institute select development projects that have a ripple effect on the overall economic performance of the country in terms of job creation, infrastructure development, agricultural improvements and a healthy society.

In Nairobi, there are forty-three (43) MFIs headquartered in Nairobi but with branches in other parts of the country. These MFIs are serving more than 6.5 million poor and middle class families with financial services. MFIs in Nairobi range from large to small institutions which have diverse legal status ranging from Microfinance banks, Wholesale MFI's, Retail MFI's and Development Institutions which represent the entire landscape of the Microfinance industry in Kenya (Association of Microfinance Institutions, 2015).

Statement of the Problem

MFIs in Kenya have increased in number from the 1980s when they were introduced into the country but this increase has not necessarily led to improved microfinance operational environment. Even though during the same period there have been some notable developments such as enactment of the Microfinance Act, some MFIs still have difficulties in achieving their main objective of providing financial services to the low income households thus contributing to poverty alleviation (Masinde, 2012).

The sector has faced a number of constraints and fallen short on achieving widespread outreach and sustainability, hence compromising on client impact. The main limitation facing MFIs has been performance in terms of operations, management and strategic issues (Masinde, 2012). MFIs have continued to rely on the desperation of customers for loan facilities and neglected the need to remain objective and strategic in their performance. Furthermore, the growth rate in terms of borrowers is low with an average of mere 2.8% over the years. The profitability and sustainability levels of the sector has dropped dramatically as a result of higher operating and funding costs resulting from costly lending methodology and higher risk exposure. The fund costs over average portfolio jump to 8.6% while operating costs over average portfolio jump to 26.7% (Mirofinanza rating, 2013).

The microfinance industry is increasingly under pressure from investors and partners with respect to the fulfillment of its social mission. 79.3% of surveyed institutions reported having goals in terms of female borrowers and rural population reached, while 62.1% report having targets in terms of outreach to the poor. 96.6% reported having a code of conduct aligning and guiding their lending and savings activities to best practices.

55.2% of participants reported to conduct regular clients satisfaction surveys but only 34.5% indicated having adequate systems, tools and structures in place to analyze results and inform decision-making. Only 37.0% of participants report tracking in some way clients' socio-economic status/progress. These limitations have contributed to a large extent to the poor performance and eventual demise of many MFIs (Microfinanza rating, 2013). The annual report on the AMFI sector in Kenya: 2013 released by Microfinanza rating and AMFI indicates that there were 62 AMFI registered members by August, 2013. Today, the number of AMFI registered members has reduced to 50, meaning that some MFIs have since dropped out (AMFI, 2015).

Kenya's economy will be affected in that investors need to get loans at low rates and use the funds received to institute development projects that have a ripple effect on the overall economic performance of the country in terms of job creation, infrastructure development, agricultural improvements and a healthy society (Yabs, 2010). It is on this basis that the study had been proposed, to find out the role of strategic planning process on the performance of MFIs in Kenya with an emphasis on MFIs in Nairobi.

General Objective

The general objective of this study was to determine the role of strategic planning on the performance of MFIs in Kenya.

Specific Objectives

The study set out to achieve four specific objectives as follows:

- To analyze the role of environmental scanning on the performance of MFIs in Kenya.
- To determine the role of strategy formulation on the performance of MFIs in Kenya.
- To analyze the role of strategy implementation on the performance of MFIs in Kenya.
- To examine the role of strategy evaluation on the performance of MFIs in Kenya.

LITERATURE REVIEW

Introduction

The review of literature involves the systematic identification, location and analysis of documents containing information related to the research problem being investigated. This chapter covers theoretical and empirical review.

Theoretical Review

This section examines the existing theories that are relevant to the study.

Resource based theory

This theory was initially promoted by Penrose in 1959 and later expanded by others like Wernerfelt (1984), Barney (1991) and Conner (1991). It stems from the principle that the source of a firms competitive advantage lies in their internal resources, as opposed to their positioning in the external environment. That is rather than simply evaluating environmental opportunities and threats in conducting business, competitive advantage depends on the unique resources and capabilities that a firm possesses. The resource-based view of the firm predicts that certain types of resources owned and controlled by firms have the potential and promise to generate competitive advantage and eventually superior firm performance.

The firm is a bundle of resources and capabilities. These resources and capabilities are made up of physical, financial, human and intangible assets. The theory is conditioned on the fact that resources are not homogenous and are limited in mobility.

The firm can translate these resources and capabilities into a strategic advantage if they are valuable, rare, inimitable and the firm is organized to exploit these resources. Along general lines of this theory, two key concepts are resource and capability. According to Hashim (2005), a resource is anything which could be thought of as strength or a weakness of a given firm. More formally, a firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semi permanently to the firm. Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures and capital.

Capabilities must be defined apart from resources. A capability is joint resources to produce any work or activity (Grant, 1991). Grant established a hierarchy of resources and capabilities. Resources (first level) are combined to create capabilities (second level) which are the basis for a competitive advantage (third level).

The Survival-Based theory

The concept of survival-based theory or some might call it as “survival of the fittest’ theory was originally developed by Herbert Spencer. This theory, which was quite popular during late 19th and early 20th century, emphasized on the notion that by following the principle of nature, only the best and the fittest of competitors will win, which in the end would lead to the improvement of the social community as a whole. The survival-based view in strategic management emphasized on the assumptions that in order to survive, organizations has to deploy strategies that should be focused on running very efficient operations and can respond rapidly to the changing of competitive environment since the one that survive is the one that is the fittest and most able to adapt to the environment. Some of the proponents of this view argued that selecting a particular set of strategy would not be optimal. Instead, it is better to experiment with several strategies at once and let the process of natural selection choose the best strategy that adapts better to the environment. This view put the survival- based theory into the typology of emergent theories of strategic management. A company should strive to run efficiently in order to better adapt to the environment, improving its profitability and to achieve the ultimate goal of surviving the competitive market in which it operates.

The Profit Maximization theory of the firm

The Classical Profit maximization theory or as some might also call it as The Neo-Classical economic theory of the firm could be traced back as early as Adam Smith's writing in "The Wealth of Nations". As Adam Smith argued that every business person with his/ her own company (based on contractual duties to owners) would act in self-interest to maximize profit and by so doing increased the aggregate benefit of the society. It was not until 1950s and 1960s that this theory received considerable attention from strategic management field through writers such as Igor Ansoff, Alfred Chandler and Alfred Sloan. Ansoff (1989) in particular said that a firm seeks its objectives through the medium of profit and, more specifically, through conversion of its resources into goods and/or services and then obtaining a return on these by selling them to customers. In this respect, survival of the firm depends on profit; unless profits are generated and used for generation of future profit and replacement of resources, the firm will eventually run down.

The profit maximization theory no longer adopts short-termism and absolute in nature (pure form). The change of paradigm in this profit maximization theory of the firm was a result from decades of criticism spearheaded by the emergence of the Stakeholders Theory of the Firm, introduced initially by Freeman in 1984. Over the years, critics on this theory mainly came from the field of corporate responsibility (Cragg 2002; Lantos, 2001), but later also from other field such as strategic management (Goldenberg, 2000). However, despite its critics, this theory is still so much applicable today especially in big firms. The basic premise of this theory in the field of strategic management is that the strategies will be driven primarily (but not exclusively) by the objective of maximizing the organization's profitability in the long run with the ultimate purpose of developing sustainable competitive advantage over the competitor (Lynch, 2000).

The Contingency theory

This theory started to emerge during 1960s with such publications by Burns and Stalker (1961), Chandler (1962) and Lawrence and Lorsch (1967). The basic paradigm of contingency theory is that organization seeks effectiveness by fitting characteristics of the organization with contingencies that reflect its situations. It is a perspective on management that emphasizes that no single way to manage people or work is best in every situation. It encourages managers to study individual and situational differences before deciding on a course of action. Early contingency theories argued that high performance is associated with the suitability of contingencies such as organizational size, technology level, strategy and also environment with types of organization structure that an organization chooses. Changes in contingencies, such as size or strategy, would render the structure to be unfit with the organization and lead to lower performance. Hence, adjustment to the structure was needed to regain the fit condition, in which would lead to higher performance.

These researches on contingencies and organization structure were later known as structural contingency theory. Earlier critics on this theory came from Child in 1972, in which he argued that structure was not entirely defined or determined by changes in contingencies. Aside from contingencies, strategic choice, which controlled by organizational decision-makers, also played major role in choosing types of structure and also changes in contingencies that the organization decided to take. In this view, it was not necessarily contingencies that followed structure, but changes in structure could also lead to changes in contingencies.

During the process of strategy formulation, implementation and evaluation, the main strategic management theories should be applicable to management of organization as tools to assist them in making strategic and guided managerial decision. The main emphasis of the theory therefore is that even for the same type of organization, and by using the same techniques and methods of strategic management, the outcome should vary depending upon the situational variables that made up the internal environment of organization, as well as the dynamics of organization’s external environment (Khairuddin, 2005).

Conceptual Framework

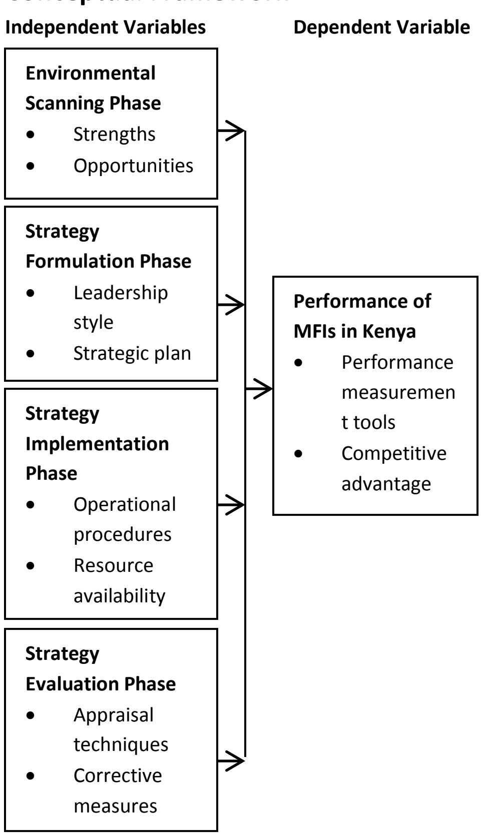

Figure 1 Conceptual Framework

Environmental Scanning

It involves careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. In comparison, surveillance is confined to a specific objective or a narrow sector. The basic purpose of environmental scanning is to help management determine the future direction of the organization. Environmental scanning is of most value when it is focused or anchored around issues of current concern to your organization. At the end of the scanning process, you are aiming to have a report that details relevant trends in the external environment that are likely to have a significant impact on the way you do business in the future, and the implications of those trends on your organization’s strategy today (Cole, 2004).

Strategy Formulation

It is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. Appropriate leadership style is essential to an organization’s success because it helps come up with a framework for the actions that will lead to the anticipated results (Sheldrake, 2003). Strategic plans should be communicated to all employees so that they are aware of the Organization’s objectives, goals and purpose. The strategic plans should also communicate the actions needed to achieve the goals and all the other critical elements developed during the planning exercise. Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur (David, 2005).

Strategy Implementation

The basic strategy - implementation activities are establishing annual objectives, devising policies and allocating resources. Strategy implementation also includes the making of decisions with regard to matching strategy and organizational structure; developing budgets, and motivational systems. There should be operational procedures to give instructions and guide on how activities are to be performed. They should address who, where, when, and how the desired goals and objectives can be reached. Strategy Implementation therefore focuses on the entire organization (DuBrin, 2006).

Strategy Evaluation

The final stage in strategic planning is strategy evaluation. All strategies are subject to future modification because internal and external factors are constantly changing. In the strategy evaluation and control process managers determine whether the chosen strategy is achieving the organization's objectives. The fundamental strategy evaluation and control activities are: appraising and reviewing internal and external factors that are the bases for current strategies, measuring performance, and taking corrective actions. Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in today's dynamic world with socio-economic, political and technological innovations (Haim, 2005).

Empirical Review

This section presents the review of previous studies carried out by other researchers on the Role of Strategic planning on the performance of MFIs.

Environmental Scanning Phase

Environmental scanning phase is the analysis of the external competitive environment and the internal operating environment to determine the competitive situation (Hill & Jones, 2010). The analysis involves identification and evaluation of current mission, objectives, strategies, strengths and weaknesses; analyzing the organization's external environment, opportunities and threats; and identifying issues that require particularly high priority attention by management (Glantier & Underdown, 2001; Yabs, 2010). Environmental scanning phase enables managers develop a strategic profile of the organization based on information they have collected (Soko, Mphande, Pierli & Katuse, 2012). SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats that face a firm. It represents an assessment of how well resources have been utilized matching them with the environmental needs (Yabs, 2010). Strength is a distinct competence or skill that gives an organization an edge over its competitors while weakness refers to a negative condition that can have an impact on the overall organizational performance.

Opportunity refers to an existing or expected state in the organization environment that is positive to the performance of the organization. Threat, on the other hand, refers to an existing or expected state unfavorable to the performance of the organization (Soko et al., 2012). PESTEL is an acronym for political, economic, social, technological, ecological and legal referring to those external and internal factors that affect an organization's performance (Soko et al., 2012). These factors can pose both threats and opportunities for an organization depending on the current state of affairs. Organizations must understand how the various factors under PESTEL impact their performance and determine strategies advantageous to its progress. According to Yabs (2010, p. 50), PESTEL factors form part of the "remote environment" which is out of the control of the organization because they "influence the performance of the firm, but the firm can influence very little on that environment." Organizations must consider the type of competitive force that has greater impact on its performance and seek to develop strategies that help to guard against them. Yabs (2010) shows that the process follows a logical order that starts with analysis of the industry competition, then analysis of participants, then use of Porter's Five Competitive Forces, then formulation of appropriate strategy and ending with implementation of chosen strategy.

Strategy Formulation Phase

Strategy formulation phase is the phase where specific organization strategies are formulated taking into consideration the organization strengths identified and correcting the weaknesses noted (Hill & Jones). Soko et al., (2012, p. 64) define strategy formulation as "the development of long-range plans for the effective management of environmental opportunities and threats, in the light of strengths and weaknesses." Strategy formulation phase involves taking the best alternative from a given number so as to achieve set organizational objectives (Management Study Guide, 2012). According to MacLennan (2011), strategy formulation is a highly iterative process where activities from different life-cycle phases continuously exchange information. In an organization, the creation of a strategic identity and the execution of strategic analysis through strategy formulation are often the most difficult, demanding and time consuming parts of the strategic planning process. This is because the development of strategic identity asks for an in-depth conceptual discussion, supported by analytical tools. Instituting effective strategies are key in ensuring organization performance.

Strategy formulation phase is necessary for performance. If an organization does not formulate effective strategies, it will not achieve its set goals. Unless an organization has in place an effective strategy formulation mechanism, having resources to do the job may not result in effective performance (Woldie et al., 2012). Managers have to provide guidelines and steps necessary to help employees develop a sense of competence necessary to ensure organization performance (Hill & Jones, 2010). Equipped with information sourced out of the environmental scanning phase, the manager formulates organizational strategies at the three levels of strategy. Strategy formulation phase produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organization, and supply the strategies for accomplishing them. It involves modifying the current objectives and strategies in ways to make the organization more successful (DuBrin, 2006).

According to Yabs (2010), there are many factors that influence the choice of strategies by different firms. The major factors that influence the choice of a strategy in most firms is the match between internal competencies and external environmental factors. It is also influenced by the availability of resources, financial and human, as well as good executive stewardship. Even so, the overall choice of a strategy is done by the founders of the firm, who determine what products or services to be produced. This is the choice of a generic strategy. There is also appropriate strategy that refers to the strategy that fits well with the firm's prevailing circumstances and that which can lead the company to the attainment of its objectives. Appropriateness of a strategy is determined by the results of the environmental analysis and the decisions of the corporate level executives. It is also determined by the kind of product or service that is being offered, as well as the technology to be used and the caliber of personnel needed. Other factors that determine appropriateness of a strategy include the availability of funds, political stability, stability, fiscal and monitory policies and the level and intensity of industrial rivalry (Yabs, 2010).

Strategy Implementation Phase

Strategy implementation phase involves putting into action the strategies formulated to achieve desired outcome. According to MacLennan (2011), strategy implementation is the process by which strategies and policies are put into action through the development of programmes, budgets and procedures." It implies making the strategy formulated work as intended and includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources (Management Study Guide, 2012). According to Yabs (2010), strategy implementation phase is influenced by a number of factors, most important of which is the availability of resources and requisite manpower. Other factors include: raw materials, energy, fuels, machinery, qualified employees, management capability and leadership provided by the management. An organization must ensure that there are facilities and equipment necessary to carry out work. Organization performance is thus influenced by the availability of resources and manpower necessary during strategy implementation phase (MacLennan, 2011).

Strategy implementation phase is determined by how well outcomes meet or exceed expectations of the employee or employer in ensuring organization performance (DuBrin, 2006). It is imperative for managers today to arrive at suitable measures to increase employee competence through knowledge of effective strategy implementation mechanism. If this is not taken into consideration, the organizations will fail to achieve optimal performance using available resources (Hill & Jones, 2010).

It is worthwhile to discuss the importance of strategy implementation on the performance of an organization. Several authors have established that the relationship between strategy implementation and organization performance is weak, but other scholars have found evidence to suggest effective strategy implementation leads to relatively high organization performance (Baker, Baker & Michael 2003; Hill & Jones, 2010). However, the consensus is that, in the long run, effective strategy implementation leads to high organization performance. In organizations, and in the practice of strategic planning, strategies must be implemented to achieve the intended results. The most wonderful strategy in the history of the world is useless if not implemented successfully. Furthermore, strategy formulation is an element of strategic planning that MFIs have to incorporate in order to achieve sustainability. This calls for implementation of sound strategies geared towards achievement of overall organizational performance and sustainability.

Strategy Evaluation Phase

Strategy evaluation phase requires continuous review of activities in the entire strategic planning process to ensure compliance. According to Hashim (2005), strategy evaluation is the process by which corporate activities and performance results are monitored so that actual performance can be compared with desired performance. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking corrective actions (Arlbjorn & Haung, 2010). Evaluation makes sure that the organizational strategy as well as its implementation meets the organizational objectives (Management Study Guide, 2012). Strategy evaluation phase can be conducted through the use of a balanced scorecard which is a strategic management tool that helps to evaluate performance of an entity. Poncelot and Wegmann (2006) in "Perspectives on Non-Financial indicators as a Strategic Management Tool: A France Inquiry" define balance scorecard as a strategic management accounting information system intended to articulate a company's strategies with its operational control. Yabs (2010) notes that the balanced scorecard enables firms to link corporate strategy with key performance indicators at the business level, at the department level, at the individual shifts, and at individual workers working place.

Strategy evaluation phase ensures four key activities are achieved: consistency, consonance, advantage and feasibility. Strategy evaluation phase ensures there is consistency between objectives, goals, actions, policies and organizational values. Consonance in strategy evaluation phase ensures that the strategy represents an adaptive response to the external environment and to the critical changes occurring within it. Strategy evaluation phase also ensures that the strategy creates a competitive advantage in the selected area of activities. Feasibility of the strategy is also ensured through strategy evaluation phase (Barney, 2007). A well planned and well executed strategy evaluation phase can provide several advantages. To begin with, there will be higher productivity and improved level of organization performance. This will result due to regular review of performance using evaluation tools that provide feedback on results making achievement of set goals realistic (Depperu & Gnan, 2006). Improvements in organization performance among high performing organizations can be attributed in no small measure to effective strategy evaluation that offers feedback to help effect corrective measures.

RESEARCH DESIGN AND METHODOLOGY

This chapter of the study describes the methodology and the design the researcher used.

Research Design

The research design is a general plan for implementing a research strategy. The study under investigation fell under descriptive research. The research design was used to generate answers to research problems. Description research seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behaviours. This design method was used to assess the characters, attitudes and values of the respondents.

Target Population

In this study, the target population comprised of forty three (43) MFIs in Nairobi.

Sample Size

In practice, the sample size used in a study is determined based on the expense of data collection and the need to have sufficient statistical power. In the study, a complete census was carried out due to the small size of the population; hence the sample size was equal to the population size of forty three (43) MFIs located in Nairobi.

Data Collection

In this study, the researcher collected data through the use of questionnaires. The researcher issued five (5) questionnaires to each of the forty three (43) MFIs giving a total of two hundred and fifteen (215) questionnaires. Once the data had been collected, it was captured, coded and cleaned, ready for analysis.

Data Analysis and Presentation

In this study, the descriptive and inferential statistics was used to analyze the quantitative data obtained to enable critiques to conceptualize the results.

FINDINGS, DATA ANALYSIS AND PRESENTATION

This chapter offers an analysis of the data collected, its interpretation and presentation. The researcher has analyzed the data collected from the respondents and the information was presented in form of frequencies, percentages, tables and charts.

Response Rate

The researcher distributed a total of 215 questionnaires to the population under study. Each of the 43 MFIs was issued with 5 questionnaires. Out of the 215 questionnaires issued, 176 questionnaires accounting for 82% of the population were filled and returned. The remaining 39 questionnaires accounting for 18% were not filled.

Gender

The population was made up of both males and females. Determining the composition of the respondents in terms of gender was critical in establishing the gender group that contributed more to the study. The findings indicated that majority of the respondents were male at (63.1%) while females were at (36.4%). This indicated that responses from both gender was represented in the study.

Age Bracket

Age was another important demographic data that the researcher requested the respondents to respond to. Results indicated that majority (62.5%) of the respondents were between 26-35 years, 17% were between 36-45 years, (11.9%) were above 46 years, while a few (7.4%) were below 25 years.

Level of Education

The level of education of the respondents was important as it helped in establishing their educational background and hence their general response to the questions asked. Majority (63%) of the respondents had Undergraduate level of education, 55% had Post-secondary level of education, and 48% had Graduate level of education while a few (5%) had Post-Graduate level of education.

Length of Service

The respondents' period of work at their current place of employment was another important demographic data that helped the researcher to determine the level of knowledge and experience the respondent had of the organization and its operations. The findings indicated that majority (56.3%) of the respondents had worked in the organization for a period of 1-5 years; 14.2% had worked for a period of 6-10 years; 19.9% had worked for less than a year while a few (7.4%) had worked for 11 years and above. This was due to the relative newness of most of the MFIs in the microfinance sector.

Descriptive Analysis

The study used a likert scale to collect data on the views of employees regarding various statements for the variables under study. A five level column scale of 1 to 5 was used, with 1 having the least value and 5 having the highest value.

Performance

The researcher asked the respondents to rate the level of performance in their organizations, performance measurement tools, level of their organization performance in relation to others in the same industry and the impact of methods of performance measurement methods in their organizations. Majority (76.1%) of the respondents said it was good, 11.4% rated their organization performance as Not Good, while a few (9.1%) said it was Very Good.

Rating of performance measurement tools

Based on the rating of performance measurement tools, majority (80.7%) of the respondents rated their performance measurement tools as Good; 6.3% said it was Not Good while a few (10.8%) it was Very Good.

Rating organizational performance in relation to others in the same industry

46% of the respondents rated organizational performance in relation to others in the same industry at good; 36.4% rated it not good while 4.5% of the respondents rated it as poor.

Impact of performance measurement methods in the organization

The researcher sought to find out the impact that performance measurement methods in their organizations had on performance. Majority (80.1%) of the respondents said the impact was Good; 8.0% of the respondents said it was Very Good while a few (8.0%) of the respondents said the impact was Not Good.

The Role of Environmental Scanning Phase on Organization Performance

To try to understand the role of environmental scanning phase on the performance of MFIs, the researcher asked the respondents to respond to questions touching on the key activities conducted in environmental scanning phase. In particular, the researcher narrowed down on the effect that organization strengths and weakness had on an organization's performance.

Organization Strengths and Weakness

The data collected identified several strengths and weakness that exist among MFIs in Kenya. The researcher found out from the qualitative data, aspects of organization strengths and weaknesses that had correlation with an organization's performance as identified by the respondents. Strengths identified by majority (43%) of the respondents were qualification of employees and organization brand and image. Weaknesses identified by majority (45%) of the respondents were lack of funds and remuneration.

Rating of organization's strengths and weaknesses

The researcher asked the respondents to rate their organization's strengths and weaknesses. Majority (55%) of the respondents rated their organization strengths as Very high, 36% of the respondents said it was high and a few (9%) said it was moderate. Majority (56%) of the respondents rated their organization's weakness as Moderate, 24% of the respondents said it was High and a few (20%) of the respondents said it was low.

The Impact of Organization Strengths and Weakness on Organization Performance

The researcher sought to relate the impact that the strength and weakness identified by the respondent had on the performance of their organization. The impact of the strength mentioned on organization's performance, majority (68%) of the respondents answered it was Very high while a few (32%) of the respondents answered it was High. This showed that majority of the respondents agreed that organization strengths had a very high impact on organization performance. One of the reasons put forward for this response by the respondents was that organizations that exhibited the strengths identified were able to retain high caliber employees whose input in the organization would improve its performance. On the impact of the weakness mentioned on organization's performance, majority (64%) of the respondents answered it was Very high while a few (36%) of the respondents answered it was high. This could be attributed to the fact that organizations that have major weaknesses tend to have less motivated employees who also perform dismally hence affecting overall organization performance.

The findings concur with the argument postulated by Soko et al. (2012) that strengths give an organization an edge over its competitors while weakness impact on the overall organizational performance. Most of the respondents therefore hold the belief, rightly so, that the elements of environmental scanning phase that include strengths and weaknesses have an effect on performance of microfinance institutions.

The Role of Strategy Formulation Phase on Organization Performance

To enable the researcher show the role of strategy formulation phase on the performance of MFIs, she sought the respondents' answers to questions relating to activities carried out during the strategy formulation phase. In particular, the researcher narrowed down on the effect of leadership style and strategic plans on an organization's performance.

Rating of leadership style and strategic plan choice in the organization

Majority (46%) of the respondents rated the leadership style in their organization as Good, 38% said it was Not Good while a few (16%) of the respondents said that the leadership style in their organization was Very Good.

Majority (64%) of the respondents rated the strategic plan choice in their organization as Good and a few (36%) of the respondents said it was Very Good.

The Effect of Leadership Style and Strategic Plans on Organization Performance

Majority (50%) of the respondents said the leadership style in their organization had a Good effect on organization performance, 36% said the effect was Not Good while a few (14%) of the respondents said the effect was Very Good. The respondents believed that the leadership style exhibited by a manager had a high correlation with the performance of an organization.

The researcher sought to know whether the existence or non-existence of strategic plans in an organization had an effect on organization performance. Majority (61%) of the respondents said the strategic plan choice in their organization had a Good effect on organization performance while a few (39%) of the respondents said it had a Very Good effect on organization performance. One of the reasons put forward for this response by the respondents was that organization that have in place strategic plans that cover a period of time tend to perform better because they have set benchmarks against which performance is measured.

According to MacLennan (2011), the creation of strategic identity is often the most difficult and most demanding part of the strategic planning process. It requires astute leadership support with concrete strategic planning tools. The arguments put forward by MacLennan (2011) is supported by the findings of this study as a majority of the respondents agreed that leadership style had an impact on organization performance. The respondents also concur that strategic plans which is one example of a strategic planning tool also impact on the performance of an organization.

The Role of Strategy Implementation Phase on Organization Performance

To enable the researcher determine the role of strategy implementation phase on the performance of MFIs, she sought the respondents' answers to questions relating to activities conducted during the strategy implementation phase. In particular, the researcher looked at the effect of operational procedures and resource availability on an organization's performance.

Operational Procedures Effectiveness on Organization Performance

The respondents were requested to describe the operational procedures within their organization in terms of effectiveness. Majority (73%) of the respondents said that operational procedures in their organization were Effective, 14% of the respondents said they were Moderate, 11% said they were Very Effective while a few (2%) of the respondents said that operational procedures in their organization were Ineffective.

Resources Effectiveness on Organization Performance

The respondents were requested to rate the resources within their organization in terms of effectiveness. Majority (68%) of the respondents rated resources in their organization as Effective while a few (32%) of the respondents rated their organization resources as Very Effective.

The impact of Operational Procedures and Resource availability on Organization Performance

The researcher sought to relate the effects of operational procedures on the performance of their organization. Majority (85%) of the respondents said the operational procedures in their organization had an effect on organization performance while a few (15%) of respondents said it had a Moderate effect on organization performance. This could be attributed to the fact that every organization has some kind of procedure under which its key activities were undertaken. The critical issue to consider is whether these operational procedures act in unison towards achievement of overall organization goals and hence increasing organization performance. Resources are critical in the achievement of any organizational objective. To this end, the researcher sought to know whether the respondents concur with this notion that availability of resources had an impact on organization performance. Majority (91%) of the respondents said the resources in their organization had an effect on organization performance while a few (9%) of the respondents said it had a Moderate effect on organizational performance. The reasoning behind this response could be that resources were key ingredients in the achievement of organizational objectives whether they are monetary or human resources. The findings of the study support the view that strategy implementation had an impact on organization performance because it involves putting in place effective operational procedures and having adequate resources to achieve set targets. Furthermore, the findings of the study concurred with the view of Yabs (2010) that strategy implementation was influenced by a number of factors, the most important factor being availability of resources.

The Role of Strategy Evaluation Phase on Organization Performance

To enable the researcher show the role of strategy evaluation phase on the performance of MFIs, she sought the respondents' answers to questions relating to activities conducted during the strategy evaluation phase. In particular, the researcher narrowed down on the effect of appraisal techniques used and corrective measures undertaken on an organization's performance.

Rating of Appraisal Techniques used in the Organization

The respondents were requested to rate the appraisal techniques used in their organization in terms of effectiveness. Majority (71%) of the respondents rated the appraisal techniques used in their organization as Effective, 12% said they were Moderate, 9% said they were Very Effective while a few (8%) of the respondents said that appraisal techniques used in their organization were Ineffective.

Rating of Corrective measures undertaken in the Organization

The respondents were requested to rate the corrective measures undertaken in their organization in terms of effectiveness. Majority (86%) of the respondents rated corrective measures undertaken in their organization as Effective, 12% of the respondents said they were Very Effective while a few (2%) of the respondents said they were Moderate.

The Impact of Appraisal Techniques and Corrective measures used on Organization Performance

The researcher sought to find out the impact that appraisal techniques used within an organization had on its performance. Majority (86%) of the respondents said the operational procedures in their organization had an effect on organization performance while a few (14%) of respondents said it had a Moderate effect on organizational performance. The most cognizant reason put forward for this response was that employees perform better if they believed that their input will be recognized and rewarded. The only way to recognize their effort was through conducting performance appraisal. Therefore, if there were avenues put in place to appraise performance, employees would perform better and hence lead to overall organization performance. At the end of an appraisal technique, corrective measures must be undertaken to achieve desired objectives. As a follow up to the question on appraisal technique used within an organization asked previously, the researcher sought to find out whether the corrective measures undertaken had an effect on organization performance. According to Majority (73%) of the respondents said the corrective measures in their organization had an effect on organization performance, 26% of respondents said it had a Very big effect on organization performance while a few (1%) of the respondents said it had a Moderate effect on organizational performance. It generally follows that if appraisal had been undertaken, corrective measures should be instituted to bring performance up to par with desired standards.

Strategy evaluation phase involves the continued monitoring of activities within an organization to determine deviation from desired performance results (Soko et al., 2012). The findings of this study support the view proposed by Depperu and Gnan (2006), that there would be higher productivity and improved level of performance among organizations that conduct regular review of performance. The findings of this study also supports Yabs (2010) view that, there are improvements in organization performance among high performing organization attributed in no small measure to effective strategy evaluation that offers feedback to help correctives measures.

Inferential statistics

In determining the role of strategic planning on the performance of MFIs, the study conducted a correlation analysis to determine the nature of relationship between the variables.

Environmental Scanning Phase and Organization Performance

According to Table 1, findings indicate that performance of MFIs is negatively related to the environmental scanning phase with a coefficient of r= -.179, which is significant at $p<0.05$ level.

Table 1: Correlation of Environmental Scanning Phase and Organization Performance

		Performance of MFIs	Environmental Scanning phase
Performance of MFIs	Pearson Correlation	1	-.179*
	Sig. (2-tailed)		.031
	N	165	145
Environmental Scanning phase	Pearson Correlation	-.179*	1
	Sig. (2-tailed)	.031	
	N	145	153

*. Correlation is significant at the 0.05 level (2-tailed).

Strategy Formulation Phase and Organization Performance

Table 2 shows that performance of MFIs is positively related to the strategy formulation phase with a coefficient of r= .272, which is significant at p<0.01 level.

Table 2: Correlation of Strategy Formulation and Organization Performance

		Performance of MFIs	Strategy formulation phase
Performance of MFIs	Pearson Correlation	1	.272**
	Sig. (2-tailed)		.001
	N	165	154
Strategy formulation phase	Pearson Correlation	.272**	1
	Sig. (2-tailed)	.001	
	N	154	160

**. Correlation is significant at the 0.01 level (2-tailed).

Strategy Implementation Phase and Organization Performance

Table 3 indicates that strategy implementation phase positively affects performance of MFIs with a coefficient of r= .346, significant at p<0.01 level.

Table 3: Correlation of Strategy Implementation Phase & Organization Performance

		Performance of MFIs	Strategy implementation phase
Performance of MFIs	Pearson Correlation	1	.346**
	Sig. (2-tailed)		.000
	N	165	164
Strategy implementation phase	Pearson Correlation	.346**	1
	Sig. (2-tailed)	.000	
	N	164	175

**. Correlation is significant at the 0.01 level (2-tailed).

Strategy Evaluation Phase and Organization Performance

Table 4 shows that strategy evaluation phase insignificantly affects performance of MFIs with a coefficient of r= .0.14.

Table 4: Correlation of Strategy Evaluation Phase and Organization Performance

		Performance of MFIs	Strategy evaluation phase
Performance of MFIs	Pearson Correlation	1	.014
	Sig. (2-tailed)		.861
	N	165	150
Strategy evaluation phase	Pearson Correlation	.014	1
	Sig. (2-tailed)	.861	
	N	150	160

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter offers a summary of the research findings of the study and highlights pertinent issues arising out of the findings. The chapter also offers conclusions and recommendations of the study.

Summary of the Major Findings

At the conclusion of tabulation of the findings deduced from the questionnaires received from the respondents, the researcher identified important information that supports the arguments put forward in the study. A summary of the major findings follow below.

The Role of Environmental Scanning Phase on Organization Performance

According to the findings, it was observed that Environmental Scanning Phase negatively correlates with performance of MFIs at r=0.179. The findings revealed that organization strengths had a very high impact on organization performance. In addition, factors such as organization weaknesses had a direct impact on how an organization would perform against its competitors. The strengths identified such as business location and services, were leaning towards organization set-up, while weaknesses identified such as remuneration and favoritism at work, were more inclined towards the employees' welfare.

The Role of Strategy Formulation Phase on Organization Performance

Findings showed that performance of MFIs is positively correlated to Strategy Formulation Phase at r=0.272. According to the findings, leadership style and strategic plans greatly impact on the performance of MFIs. It was established that this is due to the fact that reason for their concurrence was due to the belief that the leader's views influenced the organization direction and ultimately its performance.

The Role of Strategy Implementation Phase on Organization Performance

Under this section, it was established that performance of MFIs is strongly correlated to Strategy Implementation Phase at r=0.346. According to the findings, operational procedures had an effect on organization performance. In this case, availability of resources had an effect on organization performance. In addition, it was noted that nothing could be done in the organization if there were no procedures to achieve them and that resources must also be available (whether funds or personnel) to achieve set targets.

Strategy implementation phase involves putting into action the strategies formulated to achieve desired outcomes through programmes, budgets and procedures (Soko et al., 2012). The findings of the study support the view that strategy implementation had an impact on organization performance because it involves putting in place effective operational procedures and having adequate resources to achieve set targets. The findings of the study also concurred with the view of Yabs (2010) that strategy implementation was influenced by a number of factors, the most important factor being availability of resources.

The Role of Strategy Evaluation Phase on Organization Performance

Research findings indicated that there was a moderate correlation between performance of MFIs. According to the findings, appraisal techniques influenced organization performance in the sense that the appraisal techniques helped to check on performance as it progresses. The study also revealed that conducting corrective measures after the appraisal process was important as it had an effect on organization performance. This is attributed to the fact that performance is improved if short-comings are corrected in a timely manner as identified through the appraisal techniques.

Conclusion

The research study sought to find out "The Role of Strategic Planning Process on the Performance of Microfinance Institutions in Kenya: A Case of Microfinance Institutions in Nairobi." The research objectives derived out of the research topic were: To analyze the role of environmental scanning phase on the performance of MFIs in Kenya; to determine the role of strategy formulation phase on the performance of MFIs in Kenya; to analyze the role of strategy implementation phase on the performance of MFIs in Kenya and to examine the role of strategy evaluation phase on the performance of MFIs in Kenya.

The study revealed that organization performance is influenced by various factors. Effective management is an integral part of managers' role and a powerful tool for improving how individuals and teams deliver, and essential process for supporting employees to perform and ultimately the organization. The development and growth of any organization depends on its performance. Environmental scanning phase enables an organization identify its strengths and weaknesses and relate these with its strategic position so as to remain competitive. To remain a competitive entity, the management must conduct environmental scanning so as to identify and evaluate its current mission, objectives, and strategies and relate these with its desired future strategic position. Environmental scanning phase of the strategic planning process has a great effect on the performance of microfinance institutions in Kenya.

At the end of the environmental scanning phase, the management must formulate strategies in line with issues already identified. Strategy formulation phase in concerned with development of both long-range and short-range plans that enable the management address the opportunities and threats in cognizance of the strengths and weaknesses. Strategy formulation in necessary for performance targets to be achieved. This is so because if an organization does not formulate effective strategies, it will not achieve its targets. Strategy formulation phase of the strategic planning process has an impact on the performance of microfinance institutions in Kenya.

After effective strategies have been formulated, these strategies have to be implemented. Strategy implementation phase involves putting into action the strategies formulated to achieve desired results. It implies putting the strategy formulated work as intended. The management can achieve this through development of appropriate programmes, budgets and procedures. The procedures have to work for the organization and not against the organization. There must also be adequate resources, both funds and personnel to enable achievement of set targets. Strategy implementation phase of the strategic planning process has an effect on the performance of microfinance institutions in Kenya.

The entire strategic planning process requires continuous review of organization activities to ensure compliance with set standards. This can be achieved through strategy evaluation. Strategy evaluation phase can be conducted through various appraisal techniques such as the use of balanced scorecard, performance appraisal systems (PAS) and performance contracts (PCs). The corrective measures undertaken at the end of the appraisal process also influences the level of target achievement. Strategy evaluation phase of the strategic planning process affects the performance of microfinance institutions in Kenya.

Recommendations

The managers of MFIs in Kenya should take cognizance of the fact that strategic planning process has an impact on the performance of their organizations. The various phases of the strategic planning process that include environmental scanning phase, strategy formulation phase, strategy implementation phase and strategy evaluation phase each has a bearing on the overall performance of MFIs in Kenya. The managers of MFIs in Kenya should also understand that the key activities undertaken under each of the phases of the strategic planning process that include identification of strengths and weaknesses, the leadership style practiced and use of strategic plans; organizational procedures in place and availability of resources; and appraisal techniques used and corrective measures undertaken; all have an impact on their performance. Emphasis should therefore be placed on strategic planning process phases so as to ensure organization performance targets are met.

The managers of MFIs in Kenya should identify their specific strengths and create strategies that compliment organizational objectives and guide towards goal achievement. The managers of MFIs in Kenya should also take note of the weaknesses that they face and formulate strategies that will help to mitigate their influence on their performance. The managers of MFIs in Kenya should also work at improving their operational procedures so that all the employees get to work more effectively and achieve set targets more efficiently. The strategic plans in place should also be reviewed periodically as they offer greater guidance on performance targets required. The managers of MFIs should also understand that appraising performance is not enough to ensure performance targets are achieved rather the appraisal exercise should be followed up with instituting corrective measures. If the activities mentioned are put in place, MFIs in Kenya will achieve their targets optimally and perform better.

Areas for Further Study

This research study limited its scope to the influence of four variables on organization performance: environmental scanning phase, strategy formulation phase, strategy implementation phase and strategy evaluation phase. Of particular interest were various activities undertaken under each of the phases that include: strengths, weaknesses, leadership style, strategic plans, operational procedures, resources, appraisal techniques and corrective measures. Future research should therefore identify other variables associated with organization performance like threats, opportunities, competition, regulatory regime, employee commitment and remuneration.

Moreover, this research study was a case study of MFIs in Nairobi. Further research should therefore be done on other financial institutions such as SACCOs, Commercial Banks and Mortgage Finance Companies. Further study can also be done to determine the impact of strategic planning process on these different financial institutions so as to have a comparative analysis of each against the other. Further studies can also be done to include other MFIs located outside Nairobi so as to determine if the same factors have an influence on their performance.

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