International Journal of Business Management, Entrepreneurship and Innovation, Volume 6, Issue 2, 2024, PP 164-177, ISSN 2707-8027

Strategic Response and Performance of Microfinance Institutions in Nairobi City County, Kenya

Prisca Jebet Kemei[1], Maina Rugami[2]

[1]*Student, School of Business, Economics and Tourism, Kenyatta University, Kenya*

[2]*School of Business, Economics and Tourism, Kenyatta University, Kenya*

ABSTRACT

Majority of Micro finance institutions in Kenya have made losses since the first institution was licensed by the Central Bank of Kenya in 2009. Despite the fact that prudential regulations have been in place to help the CBK regulates MFIs, the problem of capital and liquidity requirements as well as increase in non-performing loans have continued to be on the increase. Therefore, this study sought to investigate the influence of strategic response on the performance of microfinance institutions in Nairobi City County, Kenya. The study was guided by Resource Based View Theory, Structural Contingency Theory, Ansoff Matrix and Human Capital Theory. This study employed a descriptive research design. The target population for this study was 13 Micro finance institutions in Nairobi City County, Kenya. The total number of respondents was 833 employees working with the 13 micro finance institutions. To ensure that all cases are represented, respondents were classified by the organizations they work with using a stratified sampling method. A simple random selection method was utilized in selecting the respondents. The study had a sample size of 270 respondents. The study used primary data that was collected using questionnaires. Questionnaires were piloted to 27 respondents working with momentum credit limited in Nairobi County, Kenya. The validity of research instrument was tested using in content, criterion and construct validity. Cronbach's alpha reliability coefficient was used to test the reliability of the questionnaire. Qualitative data was analysed using content analysis technique and presented in narrative form. Quantitative data was analyzed using descriptive statistics such as mean and standard deviation. The study further carried out inferential statistics that included correlation analysis and multiple regressions to determine the relationship between variables. The study findings were presented in form of tables, pie-charts and bar-graphs where applicable. The findings of this study would benefit the Microfinance Institutions in Kenya, government and policy makers and Kenyan banking industry by shedding light on how response strategies adopted by these institutions influence their performance. The study found that strategic planning, product design, training and development and restructuring had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya. The study concludes that strategic planning includes improving the employee onboarding process and feedback and creating a favorable recognition policy. Organizations are increasingly utilizing design to improve their efficiency, results, and market positioning. Regular training and development programs empower employees to strengthen their weaknesses and acquire new skills and knowledge.

Key Words: *Strategic Response, Performance, Microfinance Institutions*

DOI 10.35942/170k8p43

Cite this Article:

Kemei, P., & Rugami, M., (2024). Strategic Response and Performance of Microfinance Institutions in Nairobi City County, Kenya. *International Journal of Business Management, Entrepreneurship and Innovation*, 6(2), 164-177. https://doi.org/10.35942/170k8p43

1.0 Introduction

1.1 Background

The banking sector is one of the sectors of the economy affected greatly by change. When business environment change, then businesses have to respond appropriately (Galan, Veiga, & Wiper, 2019). Bhattacharya and Das (2020) observe that changes should trigger strategic responses from businesses by them acting more proactively or by adapting to the changing environment. The implications of each specific response will be dependent on the social, environmental, and economic context. Therefore, effective strategic responses require continuous scanning of both the external and internal environment so as to keep abreast of the changing variables. Ittner, Larcker and Randall (2017) observe that making decisions and taking actions that will help a firm achieve its objectives is the main goal of business strategy. The company will create a strategy in response to the opportunities and difficulties it encounters after assessing the environmental impact. Oliver (2019) indicates that to maximize their chances of success within a particular industry, the businesses must adopt a mode of strategic conduct in response to the possibilities and threats that are now present. Additionally, the turbulence in the corporate environment might create a situation where companies that were formerly well-known lose their relevance today. Therefore, financial institutions should develop a strategic response to environmental changes in order to increase their performance since their relationship with their environment is a crucial component of their capacity to survive.

Microfinance in Pakistan has come a long way since 2000 and is gradually mainstreaming into the formal banking system. Eight Microfinance Banks (MFBs) have been established, including transformation of three leading Microfinance Institutions (MFIs), and two of the world's largest MFIs have started operations in Pakistan, reflecting private sector participation and institutional diversity (Iqbal, Tufail, Mohsin & Sandhu, 2019). Following the 2007 Microfinance Strategy in Pakistan, Rauf and Mahmood (2021) observe that the sector witnessed the launch of several key initiatives. These included, enabling regulations to support technological and institutional innovations, upscaling and growth; improving industry infrastructure and setting up credit enhancement facilities. However, the potential benefits of such initiatives are however still far from being realized and the industry has not fully developed critical aspects necessary for its long term and sustainable growth. Babajide, Taiwo and Adetiloye (2017) observe that in recognition of the important roles of Microfinance in the overall development of the Nigerian economy, the Federal Government of Nigeria launched a Microfinance Policy for Nigeria in the year 2005. According to Babandi (2021) the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria was one of the key innovations adopted to diversify the supply axis of the financial market with a major policy thrust of significantly enhancing the latent capacity of the poor for entrepreneurship through the provision of microfinance services to enable them engage in economic activities and be more self-reliant, increase employment opportunities, enhance household income and create wealth. Therefore, the MFIs in Nigeria are expected to empower the economic active poor in the grassroots especially those that do not have access to the conventional banks.

A core feature of Kenya's Micro Finance Institutions (MFIs) regulation is to ensure responsible management of the businesses working in the sector. The goal is to safeguard the companies themselves, the consumers and the economy by enforcing laws to insure that the organizations have adequate resources (Polizatto, 2015). Performance is a significant feature of every company

like MFIs. Borio (2017) observe that regulations levied on organizations, thereby impacting efficiency and their activities. Prudential law restricts the degree to which MFIs are willing to threaten their creditors and this affects their performance. The regulations thus build a healthy and effective system that can endure any unforeseeable withdrawals of fear from MFIs and thus investor trust. Muithya and Muathe (2020) observe that the regulation of Micro Finance Institutions (MFIs) in Kenya places a strong emphasis on the management of the sector's enterprises. Enforcing rules to ensure that organizations have sufficient resources is intended to protect businesses, customers, and the economy. Ngari (2022) observe that an important strategic challenge for Micro finance institutions in Kenya is to foster synergies created by their complementary core competencies, while minimizing the effects of different institutional functions and to see that product pricing still covers lender transaction costs, the cost of loanable funds, and provisions for bad debts, while at the same time trying to keep these costs to a minimum. Therefore, there is need for the MFIs in Kenya to adopt appropriate strategic responses that affect their long term direction and are aimed at achieving a competitive advantage over other organizations for better performance.

Zoogah, Peng and Woldu (2019) observe that the organizational performance comprises the actual output or results of an organization as measured against intended goals and objectives. According to Al-Haddad and Kotnour (2015) the performance an organization entails goal accomplishments through the transformation of inputs into outputs. This therefore, means that the performance is based on financial and non-financial aspects of the organization. Therefore, the organizational performance can be understood by how well an organization is doing to achieve its goals. Strategic response is a set of actions and decisions for the formalization and implementation of plans with the aim of achieving the organizational objectives and is perceived as key drivers in dealing with environmental challenges and responding to customer needs (Oliver, 2019). According to Ketchen and Palmer (2019) strategic responses are actions that are designed to enable the firm to cope with challenges in the environment. In order to overcome challenges in the context of sustaining and developing internal performance, there is a need for organization to formulate and implement effective change practices. Therefore, embracing the change response strategies will improve the performance of the organization. The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions. By December 2015, MFIs had 49 registered institutions in Nairobi County namely; commercial banks under taking micro finance services, microfinance institutions, wholesale MFIs, retail MFIs, SACCOs and development institutions. Most of these micro finance institutions operate in Nairobi and have over 750 outlets and a loan portfolio of US$ 63.64 billion, 1.1 million institution savers and 350,000 borrowers (Microfinance Bulletin, 2019).

1.2 Statement of the Problem

Micro Finance Institutions (MFIs) in Kenya were founded with an aim of assisting the low income earners access credit facilities which they certainly do owing to their availability and vast network as compared to commercial banks (Ngari, 2017). Lelgo and Obwogi (2018) observe that the environment in which Micro financial institutions in Kenya operate is ever changing and continually presents opportunities and challenges which has seen a number of making losses since the first institution was licensed by the Central Bank of Kenya in 2009. For example, according to the Central bank of Kenya report of 2015, four out of nine licensed institutions made losses.

Empirical evidence has captured a relationship between strategic response and performance of the microfinance sector. For instance, a study by Kahira and Gachunga (2016) examined the effects of strategic responses by microfinance institutions in managing their operational costs and the study established a significant relationship between strategic responses adopted by microfinance institutions and operational costs. However, the study was a case of Rafiki Microfinance Ltd thus presenting a contextual gap. Afandi (2017) study examined the strategic responses by microfinance banks to the dynamism of the economic environment: Capping of Interest Rates by Central Bank of Kenya and the findings of the study indicated increase in loan applications and reduction in number of successful loan applications as the main ways in which performance of MFBs was affected. However, the study focused on financial aspects of MFIs. Ngahu and Bula (2019) studied the effect of strategic procurement strategies on performance of microfinance banks in Kenya and revealed that there was a positive and significant relationship between employee training, outsourcing, supplier relationship management and use information technology on microfinance banks performance. However, the study presents a conceptual gap as it focused on procurement strategies. Therefore, this study sought to investigate the influence of strategic response on the performance of microfinance institutions in Nairobi City County, Kenya.

1.3 Objective of the Study

The general objective of this study was to investigate the influence of strategic response on the performance of microfinance institutions in Nairobi City County, Kenya.

2.0 Literature Review

2.1 Theoretical Literature Review

2.1.1 Resource Based View Theory

This study employed the Resource-Based View (RBV) theory as pioneered by Wernerfelt in 1984. The theory argues that a firm has the ability to achieve and sustain competitive advantage if it possesses resources that are valuable, rare, imperfectly imitable and non-substitutable. Not all resources are strategically relevant within an organization.The goal of an organization is to ensure it has access to and control of valuable resources bydeveloping and securing all the relevant resources either internally or externally.

For the sustainable competitive advantages firms are forced to rely on a multitude of outside suppliers for parts, software, knowhow and sales and in doing so gain access to valuable resources and external capabilities (Langlois, 2010). The argument here fits with the need and factors that lead to a certain response strategy decisions in firms; whether they are cost reduction, new product/services introduction, focus on core competencies or labour flexibility and how they improve organizational performance. Barney (1991) states that, “sustainable competitive advantage is derived from resources that are valuable, rare, imperfectly imitable (due to path-dependence, causal ambiguity, and social complexity), and no substitutable”. A resource-based view of the firm accepts that attributes related to past experiences, organizational culture and competences are critical for the success of the firm.

This theory is relevant to the study because it shows that the MFIs implement their response strategies on the basis of their resource capability. The resource-based view (RBV) is a managerial framework that the commercial banks can use to determine the strategic resources that it can exploit to enhance its performance. The RBV also focuses managerial attention on the MFI internal

resources in an effort to identify those assets, capabilities and competencies with the potential to deliver superior performance. This theory is used to explain performance variable.

2.1.2 Institutionary Theory

Oliver (1991) developed the Institutional Theory by putting organizations at the center of the analysis of the conduct and design of organizations,. According to this viewpoint, organizations serve as representations for larger institutions. Institutions, which are regarded as accepted norms, laws, and beliefs, influence the development of practices, organizational design elements, and organizational forms. Oliver (1991) adds that following institutionalized rules is seen as a way to make an organization's activities and decisions more understandable, less uncertain, and legitimate. Institutions are defined as regular, accepted patterns of behavior that can be found both outside and inside of an organization and which give social order and exchange meaning.

According to DiMaggio (2014), the rise of institutional arguments in organizational analysis is a reflection of a dissatisfaction with theories that place efficiency at the core of an organization's operations. An organization doesn't function in a vacuum. Norms, conventions, legal requirements, cultural differences, and dealing with the escalating demands of various actors are just a few of the numerous external influences it must contend with. The enduring expectations, rules, and beliefs they produce help to explain choices in organizational practices and formal structures. According to DiMaggio and Powell (2016) the theory tries to give an explanation for the reasons and processes for organizational behavior and the organizational behavior patterns' effect within a broader, inter-organizational context.

The theory is pertinent to this research because it demonstrates that firms are not autonomous agents seeking to maximize economic opportunities; rather, they are embedded in a social web of expectations and norms that shapes managerial choice. The underlying frameworks for interpreting social situations and prescribing appropriate group behaviors and goals are provided by the social logics or rules. Thus, a manager's decision regarding a strategy is not free from social constraints; rather, it is limited. Because similar organizations are subject to the same conformity pressures and social expectations, similar managerial arrangements and strategies are frequently used. This theory is used to explain strategic planning variable.

2.1.3 Structural Contingency Theory

Structural Contingency Theory (SCT) was developed by Donaldson (1996). The key element of structural contingency theory is that organizations must fit their structure to the contingency factors in order to maintain and improve performance. Structural contingency theory holds that there is no single, effective structure for all organizations. According to Donaldson (1996) instead, organizations must adapt their structures to fit the contingency factors and the environment as they affect the organization. Contingency factors include: strategy, size, task, uncertainty, parent organization, public accountability, critical assets and technology.

This theory is relevant to the study because it holds that the most effective organizational structural design is where the structure fits the contingencies. Strategic choice also plays a role in the commercial banks in that they bow to the imperative of adopting a new structure that fits its new level of the contingency factor in order to avoid loss of performance from misfit. The theory also shows that the commercial banks social and environment is subject to change. Any misfit between the contingency variables and the structure leads to lower performance. The move from misfit to

fit is adaptive change which is the essence of structural contingency theory. This theory is used to explain restructuring variable.

2.1.4 Ansoff Matrix

The Ansoff matrix was invented by Igor Ansoff in 1965 and is used to develop strategic options for businesses. According to Ansoff (1965) there are four strategies. First, the market penetration strategy of existing markets occurs whenever an organization penetrates a market with its current products or offerings. Second, in the market development strategy the goal can either be to change an established product or change the customer segment of a more current product. Third, the product development strategy states that new products should be created so that the company can achieve growth and development. Fourth, diversification strategy involves moving simultaneously into new products and new markets.

Nwokah, Ugoji and Ofoegbu (2015) observe that product development facets of product quality and product lines/ product mix were positively and significantly correlated with the corporate performance facets of profitability, sales volume and customer loyalty. Similarly, Fong, Lo and Ramayah (2017) observe that firm image, brand strength, product innovativeness and new product quality were found to be positively related to new product performance. Ansoff (1965) observe that the firm develops a new product to cater to the existing market. The move typically involves extensive research and development and expansion of the product range. The product strategy development strategy is employed when firms have a strong understanding of their current market and are able to provide innovative solutions to meet the needs of the existing market. This theory is relevant to the study as it shows that an organization can invest in research and development to develop new products to cater to the existing market, acquire a competitor's product and merging resources to create a new product that better meets the need of the existing market. This theory is used to explain product design variable.

2.1.5 Human Capital Theory

The theory of human capital developed by Schultz (1993) is based on macroeconomic development theory. An individual attributes according to the theory of human capital are related to his productivity and productive individuals are an asset that leads to enhanced company efficiency (Becker, 2009). Singh, Terjesen and Vinnicombe (2008) emphasize that males and females have distinct human assets, i.e. knowledge, abilities and experiences, leading through diversity to a competitive benefit. This diversity of gender can be discovered in distinct instructional and work-related experiences as well as in leadership and risk-taking activities, so one hypothesis is that team performance can be improved by combining distinct abilities, experiences and behaviors.

This theory is relevant to the study as it holds that it is the key competences, skills, knowledge and abilities of the workforce that contributes to organizations competitive advantage. It focuses attention on resourcing, human resource development, and reward strategies and practices. Organizations strive to optimize their workforce not only to attain company objectives through extensive human capital development programs, but most importantly for long-term survival and sustainability. Businesses will need to invest resources to guarantee that staff have the expertise, abilities and abilities they need to operate efficiently in a quickly evolving and complicated setting. This theory is used to explain training and development variable.

2.2 Empirical Literature Review

2.2.1 Strategic Planning and Performance

Wun (2019) study examined the impact of strategic planning on organizational performance of Microfinance Institution in Myanmar. The research methodology for this study is basically primary data of questionnaire analysis. The study follows a descriptive approach. Filed data collection, interviews and case study are done mostly in Yangon. The questionnaire is distributed to 60 staff but only 50 respondents returned their questionnaires. The study found that there are many impacts of strategic planning on organizational performance such as high-quality products, significant changes in profitability level, large customer patronage and increases in sales volume. However, the study context was Microfinance Institution in Myanmar thus presenting a contextual gap.

Nyanaro and Bett (2018) study examined the influence of strategic planning on performance of commercial banks in Kenya: Case of Barclays Bank of Kenya. The study adopted descriptive research design to support and meet the objectives of the research. The target population for this study was the bank managers, middle level managers and low level managers. The study employed stratified random sampling design. Questionnaire was used as a data collection instrument. The study concluded that strategic planning represents a crystallized vision of commercial banks aspired direction of growth and plays a pivotal role in shaping banks resource allocation and capability development. However, the study was a case of Barclays Bank of Kenya thus presenting a contextual gap. Odongo, Anyango and Rotich (2016) study focused on the role of strategic planning on the performance of microfinance institutions in Kenya: A case of microfinance institutions in Nairobi. The researcher used descriptive research design. 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 (13) 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. However, the study focused on performance of MFIs between 2012 to 2014 thus presenting a contextual gap.

2.2.2 Product Design and Performance

Nadupoi, Patrick and Diana (2022) study examined the effect of product design on growth of Microfinance Institutions in Narok Town. The research adopted cross-sectional design and a census was applied of 180 respondents employed in 11 registered MFIs. Primary and Secondary data was collected and correlation and linear regression analyses were applied. The results showed that product innovation had a significant positive association to growth of MFIs in Narok Town, and product innovation had a positive Statistical effect on growth of MFIs in Narok Town. However, the study used cross-sectional design thus presenting a methodological gap. A study by Fong, Lo and Ramayah (2019) examined new product design and performance in the banking industry. Two hundred and fifty banks' customers were selected using simple random sampling in this study. Partial Least Squares (PLS), was applied to test the hypotheses. The findings revealed that four types of new product development factors, namely, firm image, brand strength, product innovativeness and new product quality were found to be positively related to organizational performance. However, the study used simple random sampling which is limited to accessing a sample that is representative of the whole population thus presenting a methodological gap.

Kamakia (2018) study examined effect of product design on performance of commercial banks in Kenya. The population of the study comprised of (43) forty-three commercial banks. The study used both primary and secondary data. Primary data was collected with the aid of a self-

administered semi-structured questionnaire. The study found that product design positively impacts performance of commercial banks and that the reputation in the market makes the bank stand out. However, the study focused on commercial banks thus presenting a contextual gap.

2.2.3 Training and Development and Performance

Naqvi and Khan (2016) study examined the influence of employees training on organizational performance: Mediation by employees' performance. The study considered the microfinance bank sub-sector from which three banks were selected. Data was collected from 304 respondents who were drawn using Taro Yamane sample size determination technique through structured questionnaire. The data collected was subjected to both descriptive and inferential techniques were used to test formulated hypotheses. The study showed that employee skill, knowledge and ability gained from training has significant effect on productivity. However, the study focused on microfinance bank sub-sector performance between the year 2012 to 2015 thus presenting a contextual gap. A study by Butali and Njoroge (2017) evaluated the influence of training and development on organizational performance: The moderating effect of organizational commitment. Descriptive survey design was adopted in the study. The study population was all the 5866 employees in the three manufacturing companies. The findings of the study were that training and development had a significant effect on organizational performance. The study further showed that affective commitment, continuance commitment and normative commitment moderated the relationship between training and development and organizational performance. However, the study focused on the performance of manufacturing companies thus presenting a contextual gap.

Ali and Ngui (2019) study examined the effect of employee training on organizational performance in the building and construction sector in Kenya: A Case Study of Tile and Carpet Centre. This study applied descriptive studies design. The target population of the study was derived from the employees of Tile and Carpet Centre. The study employed stratified random sampling technique in coming up with a sample size of respondents. The quantitative data collected was analyzed through the use descriptive and inferential statistics. The results indicate that there is significant relationship between employee training and organizational performance. However, the study was a case of tile and carpet centre thus presenting a contextual gap.

2.2.4 Restructuring and Performance

Odula (2015) study examined the effect of restructuring on the performance of financial institutions in Kenya. Data from 43 Commercial Banks in Kenya was analyzed, during the eight year period of the study from 2008 to 2015. The data collected was from the annual published financial statements. Data was analyzed using a multiple linear regression model. The study noted that an increase in profit margin, asset utilization ratio and net interest margin had a positive impact on performance of financial institutions. Overall, the results indicate that restructuring had a positive impact on performance of financial institutions in Kenya. However, the study focused on Commercial Banks in Kenya thus presenting a contextual gap.

Mutuku (2020) study investigated the influence of debt restructuring strategies and the level of non-performing loans in microfinance institutions in Nairobi County. Explanatory research design was adopted with the population of study comprising of all 57 MFIs in Nairobi County under umbrella body AMFI. Both primary and secondary data was collected. Primary data was collected with the help of a semi structured questionnaire while secondary data covering a period of five years from 2014-2018 was collected from AMFI published annual supervisory reports and MFIs

final financial statements using a data collection sheet. The main respondents were credit managers from all the 57 MFIs. Data was analysed using descriptive statistics (mean and standard deviation), correlation analysis as well as simple and multiple linier regression analysis. Debt rescheduling and interest rate reductions were found to have a statistical significant influence on NPLs. However, the study did not focus on non-financial aspects of the MFIs thus presenting a conceptual gap.

Mwangi and Maina (2021) study examined the influence of organization restructuring on the performance of Commercial Banks in Mombasa County, Kenya. The research design adopted by this study was the survey research design. Collection of primary data was done in all banks located in Mombasa County, using structured questionnaires. Descriptive statistics was used to analyze the data collected and it included the mean and standard deviations as well as inferential statistics. The findings from the study established that the banks had adopted various restructuring strategies over the recent past where the organizational restructuring parameters that were adopted to a great extent. However, the study focused on the performance of Commercial Banks in Mombasa County, Kenya thus presenting a contextual gap.

3.0 Methods

This study employed a descriptive research design. Descriptive research design was helpful in the study because it results in rich data that is collected in large amounts and the data collection allows for gathering in-depth information that may be either quantitative or qualitative in nature. Therefore, the study used the design to collect and present the data according to the respondents' perspective without altering any of the response. The target population for this study was 13 Micro finance institutions in Nairobi City County, Kenya (see appendix III). The total number of respondents was 833 employees working with the 13 micro finance institutions. To ensure that all cases are represented, respondents were classified by the organizations they work with using a stratified sampling method. A simple random selection method was utilized in selecting the respondents. Taro Yamane (1967) sample size formula was used in the study, with an assumption of 5% error term. The sample was determined as follows:

$n = N/1+N(e)^2 = 833 / 1 + 833(0.05)^2 = 270$

The study had a sample size of 270 respondents and the respective samples was obtained using as factor of 0.324 which represent 32.4% of the total population of 833.

The study used primary data that was collected using questionnaires. The researcher first contacted the administration of each selected microfinance institution to communicate the intention of carrying out the study and to clarify the significance of the study and the commitment required from the management. Self-administered questionnaires were dropped to each respondent and picked later after two weeks. The researcher made a follow up through phone calls and in addition, visited the respondents before the stated period to remind them on the importance of responding to the questionnaire. The study data was both qualitative and quantitative. Qualitative data was analysed using content analysis technique and presented in narrative form. Quantitative data was analyzed using descriptive statistics such as mean and standard deviation and presented in form of tables, pie-charts and bar-graphs where applicable with the aid of Statistical Package for Social Sciences (SPSS) version 28. The study further carried out inferential statistics that included correlation analysis and multiple regressions to determine the relationship between variables.

4.0 Results

Regression analysis was done to estimate the relationship between dependent variable and independent variables. The results are presented in Table 1, 2, and 3.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794[a]	.630	.624	1.254

Source: Survey Data (2024)

The results in Table 1 show that the value of adjusted R square was 0.624 which shows the extent to which the strategic planning, product design, training and development and restructuring had influenced the performance of microfinance institutions in Nairobi City County, Kenya. This also means that the strategic response elements not studied account for the remaining 0.376 which necessitates the need for further study.

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	211.470	4	52.868	234.732	.001
	Residual	60.135	267	0.225		
	Total	359.631	271			

Source: Survey Data (2024)

The results as presented in Table 2 show that the statistical F value was 234.732 greater than the statistical mean value of 52.868. In addition, the significance value was at 0.001 which was less than the level of significance at 0.05. Therefore, it can be concluded that the model was significant.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.744	0.154		4.831	.000
	Strategic planning	0.719	0.364	0.587	1.975	.001
	Product design	0.814	0.415	0.125	1.962	.002
	Training and development	0.773	0.330	0.671	2.342	.000
	Restructuring	0.699	0.268	0.557	2.608	.000

Source: Survey Data (2024)

The results presented in Table 8 indicate that when strategic planning, product design, training and development and restructuring are held constant, the performance of microfinance institutions in Nairobi City County, Kenya would be at 0.744. Also, the performance of microfinance institutions in Nairobi City County, Kenya would increase when strategic planning, product design, training and development and restructuring are also improved resulting to the following regression equation. Organizational performance = 0.744 + 0.719(strategic planning) + 0.814(product design) + 0.773(training and development) + 0.699(restructuring)

The study found that strategic planning had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya (β=0.587, p=0.001). The finding agrees with Wun (2019) study which examined the impact of strategic planning on organizational performance of Microfinance Institution in Myanmar. The study found that there are many impacts of strategic planning on organizational performance such as high-quality products, significant changes in profitability level, large customer patronage and increases in sales volume. The study revealed that product design had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya (β=0.125, p=0.002). The finding concurs with Nadupoi, Patrick and Diana (2022) study which examined the effect of product design on growth of Microfinance Institutions in Narok Town. The results showed that product innovation had a significant positive association to growth of MFIs in Narok Town, and product innovation had a positive Statistical effect on growth of MFIs in Narok Town.

The study found that training and development had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya (β=0.671, p=0.000). The finding agrees with Naqvi and Khan (2016) study which examined the influence of employees training on organizational performance: Mediation by employees' performance. The study showed that employee skill, knowledge and ability gained from training has significant effect on productivity. The study established that restructuring had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya (β=0.557, p=0.000). The finding is consistent with Mwangi and Maina (2021) study which examined the influence of organization restructuring on the performance of Commercial Banks in Mombasa County, Kenya. The findings from the study established that the banks had adopted various restructuring strategies over the recent past where the organizational restructuring parameters that were adopted to a great extent.

5.0 Conclusions and Recommendations

5.1 Conclusions

The study concludes that strategic planning includes improving the employee onboarding process and feedback and creating a favorable recognition policy. Properly implementing a strategic management plan will reduce the experience of being micromanaged, ultimately increasing the sense of autonomy and satisfaction among employees. Strategic planning makes corporate goals achievable and accurate, and employees can readily understand the relationship between their performance, company success, and salary. Due to this, both employees and managers desire to become innovative and creative, and it fosters the organization's growth.The study concludes that organizations are increasingly utilizing design to improve their efficiency, results, and market positioning. Design has been shown to improve product quality, increase customer satisfaction, and generate revenue. An important benefit to highlight is also cost reduction. Effective design can encourage customers to buy from the organization and not from the competitors. Design can also add value to products and services. Customers are often willing to pay more for products that look better and offer greater usability, better functionality and sustainability. Design can also help cut production costs.

The study concludes that regular training and development programs empower employees to strengthen their weaknesses and acquire new skills and knowledge. As a result, their overall performance is optimized, benefiting both the employees and the organization. When

organizations invest time and money into professional development, they see a significant return on their investment. Companies with an effective learning strategy are more than twice as likely to achieve their production goals. Employee training impacts worker retention as well as helps companies attract new employees. The study concludes that restructuring leads to decrease in operation costs because when staff are dismissed payroll expenses will be lower and outsourcing labour can be cheaper than in house. Restructuring leads to increased efficiency and communication because it often gets rid of non-essential layers in the management chain. This opens up the lines of communication allowing for increased efficiency and removes burdens on productivity. Restructuring leads to increased operational efficiency due to introduction of new technologies being introduced.

5.2 Recommendations

The study recommends that the organizational management should investing plenty of time upfront to map out the strategic planning process. Key tasks include identifying and consulting with critical stakeholders, deciding when and how to engage them, and locating the resources needed to create a good plan. The management should creatively engage a diverse group of stakeholders to assist in ensuring that the plan reflects the priorities of those impacted by the strategies. Strategic planning teams can streamline their work, reduce duplication and lighten the workload for their colleagues by staying up to date on relevant work happening across the organization and incorporating it into the strategic plan. The study recommends that the organizational management need to have a clear understanding of what problem they are solving and how their product is the best solution. This will help them focus on the core value proposition and avoid unnecessary features or distractions. They should follow design principles and standards that make it easy, intuitive, and enjoyable to use. Some of these principles are contrast, alignment, hierarchy, balance, consistency, and simplicity. The othe way to improve product design and user experience is to learn from others who have done it well by looking for inspiration, examples, and best practices from other products in their industry or niche, or from different domains.

The study recommends that the management should know what their learning preferences are to show a clear demand from workers for the continuation of in-person training. The organization should offer continuous professional development opportunities by actively offering different development opportunities to each team member, which allows them to pick and choose professional training that they believe suits and maximises their development potential. Create individualised development plans by discussing their professional goals and their current strengths and weaknesses. Also, considering the types of goals that the organization can help them achieve through training and mentoring. The study recommends that the organization should identify and select leaders at each critical level of the organization who can become change champions. Leaders need to embody, own, and drive the future vision that the organization can rally behind. It is important to recognize that, in general, not all current leaders have the desire to embrace a new vision quickly. Set appropriate targets. This can be communicated through financial targets that the company sets and the business strategies it employs. Targets should be both realistic to ensure credibility, and ambitious enough to see that change occurs. Achieving this balance requires teamwork and constructive discussion within the leadership team. Once targets are set, a small number of clear and specific metrics should be communicated and brought to life by business leaders in each area.

References

Adams, M. E., Day, G. S., & Dougherty, D. (2020). Enhancing new product development performance: an organizational learning perspective. *Journal of Product Innovation Management: An International Publication of the Product Development & Management Association*, *15*(5), 403-422.

Ayala, G. X., & Elder, J. P. (2019). Qualitative methods to ensure acceptability of behavioral and social interventions to the target population. *Journal of public health dentistry*, *71*, S69-S79.

Babajide, A. A., Taiwo, J. N., & Adetiloye, K. A. (2017). A comparative analysis of the practice and performance of microfinance institutions in Nigeria. *International Journal of Social Economics*, 4(1), 56 – 67

Babandi, G. G. (2021). Micro finance institutions in Nigeria outreach and sustainability: Questionnaire survey findings. *International Journal of Business and Social Science*, *2*(9), 126-129.

Bartunek, J. M., & Franzak, F. J. (2018). The effects of organizational restructuring on frames of reference and cooperation. *Journal of Management*, *14*(4), 579-592.

Bhattacharya, K., & Das, A. (2020). Dynamics of market structure and competitiveness of the banking sector in India and its impact on output and prices of banking services. *Reserve Bank of India Occasional Papers*, *24*(3), 123-159.

Iqbal, N., Tufail, M. S., Mohsin, M., & Sandhu, M. A. (2019). Assessing social and financial efficiency: the evidence from microfinance institutions in Pakistan. *Pakistan Journal of Social Sciences*, *39*(1), 149-161

Ittner, C. D., Larcker, D. F., & Randall, T. (2017). Performance implications of strategic performance measurement in financial services firms. *Accounting, organizations and society*, *28*(7-8), 715-741

Kahira, H. N. & Gachunga, H. (2016). Effects of strategic responses by microfinance institutions in managing their operational costs: A case of Rafiki Microfinance Ltd. *International Academic Journal of Human Resource and Business Administration,* 2 (2), 158-176

Ketchen, D. J., & Palmer, T. B. (2019). Strategic responses to poor organizational performance: A test of competing perspectives. *Journal of Management*, *25*(5), 683-706.

Khan, R. A. G., Khan, F. A., & Khan, M. A. (2019). Impact of training and development on organizational performance. *Global journal of management and business research*, 11(7), 8 – 17

Muithya, V., & Muathe, S. (2020). Dynamic capabilities and performance in the context of microfinance institutions in Kenya: An exploratory study. *Journal of Business, Economics and Management Works*, *7*(08), 15-29.

Mutuku, S. M. (2020). *The debt restructuring strategies and the level of non-performing loans in microfinance institutions in Nairobi County* (Doctoral dissertation, Egerton University).

Mwangi, P. N., & Maina, R. (2021). Organization Restructuring and Performance of Commercial Banks in Mombasa County, Kenya. *International Journal of Business Management, Entrepreneurship and Innovation*, *3*(3), 103-122.

Nadupoi, K. V., Patrick, G., & Diana, A. (2022). Effect of Product Innovations on Growth of Microfinance Institutions in Narok Town. *International Journal of Academic Research in Business and Social Sciences,* 12(8), 1934 - 1950

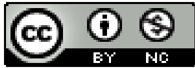
Orodho, A. J. (2005). *Essentials of Educational and Social Science Research methods: Qualitative and Quantitative Approaches.* Nairobi: Acts Press

Peña, I., & Villasalero, M. (2020). Business strategy, human resource systems, and organizational performance in the Spanish banking industry. *The International Journal of Human Resource Management*, *21*(15), 2864-2888

Rauf, S. A., & Mahmood, T. (2021). Growth and performance of microfinance in Pakistan. *Pakistan economic and social review*, 4(1), 99 – 122

Russell, J. S., Terborg, J. R., & Powers, M. L. (2018). Organizational performance and organizational level training and support. *Personnel psychology*, *38*(4), 849-863

Zoogah, D. B., Peng, M. W., & Woldu, H. (2019). Institutions, resources, and organizational effectiveness in Africa. *Academy of Management Perspectives*, *29*(1), 7-31.

This is an open-access article published and distributed under the terms and conditions of the  **Creative Commons Attribution 4.0 International License of United States unless otherwise stated. Access, citation and distribution of this article is allowed with full recognition of the authors and the source. Copyright, content ownership and liability for content herein remain with the authors.**

This is an internationally double-blind peer reviewed article.

© (2024) Prisca Jebet Kemei, Maina Rugami