THE EFFECTS OF STRATEGIC MANAGEMENT PRACTICES ON
YEHU MICROFINANCE TRUST FUND, MOMBASA COUNTY

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Master of Business Administration of Kenyatta University

September, 2013
DECLARATION

I hereby declare that this research project report is my original work and has never been presented for degree award in any University.

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DEDICATION

This research is dedicated to my late mother, Mrs. Dorcas Mucheke, who to her last day on earth was a staunch client of Microfinance Institution.
ACKNOWLEDGEMENT

It's my great pleasure to acknowledge the following: The Almighty God, for His Mercy and Favour; My Supervisor, Mr. Robert Nzulwa, for his guidance throughout the development of this research report and in particular, his availability online and on call; My wife, Margaret and children; Mercy, Kevin and Winnie, for their love and encouragement kept me on the tract; My Father Mr. David Mucheke and my late Mum, Dorcas for the great sacrifice they made in funding my education and Melvin for typing this research report.
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<tr>
<td>CBS</td>
<td>Central Bureau of Statistics</td>
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<tr>
<td>CGAP</td>
<td>Consultative group to Assist the Poorest (CGAP)</td>
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<td>LDCs</td>
<td>less Developed Countries</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<td>OER</td>
<td>Operating Expense Ratio</td>
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OPERATIONAL DEFINITION OF TERMS

Micro credit

This is the credit given in small amounts to small and low-income entrepreneurs to improve their business operations.

Micro and small enterprise

This refers to an enterprise that employs up to 50 persons with an annual turnover of a maximum of kshs 5m. Employment here referring to people working in the enterprise whether paid or not.

Microfinance Institution

This is an institution that has been set up to primarily provide microfinance services.

Status

The condition or stage reached in a given process. It can also be defined as the importance or position of a process relative to that of others.

Strategy

This is a course of action and allocation of resources that matches the organization’s activities with the existing and projected environment.

Strategic Management

This is the process of determining an organization long-term direction and the setting-up of the necessary courses of action and resources to achieve it.

Strategic Management Practices

This is an all encompassing term referring to how strategies are formulated, implemented and evaluated in an organization.
ABSTRACT

The benefits of strategic management in the modern organizations can not be gainsaid. It enables managers to scan both internal and external environment, so as, to position their organizations to eliminate internal weaknesses, convert threats to opportunities, build on their competencies and seize opportunities. It further enables managers to identify their organizations’ position in the environment, in terms of, where they are coming from, where they are, where they are going and whether there on tract toward their desired destination, so that, if need be, new road maps are drawn early enough. Microfinance institutions just like other organizations needs to adopt strategic management in order for them to meet their organizational goals and enable the poor to break the cycle of poverty. The purpose of this study was to examine the effects of strategic management practices on Yehu Microfinance Trust, Mombasa County. The study was guided by the following specific objectives; to examine the extent to which strategic management practices are adopted at Yehu Microfinance Trust Fund; to examine the effects of strategic management practices on Yehu Microfinance Trust Fund and to assess the relationship between strategic management practices and performance at Yehu Microfinance Trust Fund. Case study and descriptive research designs were adopted. The target population was the C.E.O., six Departmental Heads and fifteen supervisors. Given the small size of the target population census method was employed. Semi-structured interview guide, open and closed questionnaires and observation were adopted as instruments of data collections. Content analysis was used to analyze data. This involved organising, sorting out, coding and thematically analysing, searching for meaning, interpreting and drawing of conclusions on the basis of concepts, management practices and conceptual framework discussed in Chapter Two. The study established that; strategic management practices are fairly adopted at Yehu Microfinance; there are positive effects of strategic management practices on Yehu Microfinance Trust Fund and that there is a close relationship between strategic management practices and performance at Yehu Microfinance Trust Fund. The findings of this study led to the following recommendations; that all microfinance institutions adopt strategic management practices for improved performance and for the benefits of their stakeholders; that donors in microfinance sector peg their continued engagement on the adoption and evaluation of strategic management practices by microfinance institution; that there is need to enhance capacity building, in strategic management in microfinance institutions, by donors, government agencies and other agencies so that MFIs can reap the benefits of strategic management practices. Future researchers could: replicate this research in other microfinance institutions; conduct, in-depth and broad research on how internal and external environments affect strategic management in Microfinance institutions or conduct an empirical study on the socio-economic impact of microfinance institutions in Kenya.
CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter consists of background, statement of the problem, purpose, objectives, research questions, significance, scope, limitation, delimitation, basic assumptions and the structure of the study.

1.1 Background to the Study

In today's competitive market place organizations require some form of strategy to enable them to identify where they are, where they are going, how they shall reach there and how they shall know that they have reached (David, 2011).

Dess, Lumpkin and Taylor (2005) observe that strategic management is a management process consisting of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantages. It is concerned with the analysis of strategic goals and internal and external environment. It enables the management to make decisions on which areas to compete in and how to compete. It enables development of procedures and plans to achieve set goals and to allocate corporate resources to enable the implementation of the plans.

Strategic management practices refers to an all encompassing process of analyzing the current situation, developing appropriate strategies, putting those strategies into action and evaluating, modifying or changing those strategies as needed. These activities are usually called environmental analysis, strategy formulation, strategy implementation and strategy evaluation. These activities enables the organization to be future-oriented; provide
direction; enables the organization to strategically fit in the environment it operates; motivates employees as they are involved in various strategic management activities; enables managers to be alert to winds of change; provide a criteria for evaluating performance; facilitates identification, prioritizing and exploitation of opportunities and harmonization of numerous decisions of individuals and groups and enhance overall performance of the organization (Coulter, 2008; Yabs, 2010; Pearce and Robinson, 1999).

According to Aaker (1998) the ultimate test of any business is its performance over a given period of time. Performance is closely linked to organizations’ strategies and how well they are implemented and controlled. Ansoff and McDonnel (1990) observes that the link between strategic management and performance is buttressed by studies conducted in America which found that deliberate and systematic formulation and implementation of strategies produces significantly better performance than unplanned opportunistic adaptive approach.

Microfinance institutions just like other organizations needs to adopt strategic management, in order for them to meet their organizational goals and enable the poor to break the cycle of poverty. Microfinance institutions are increasingly emerging as a powerful tool of fighting poverty on a large scale, particularly in developing countries like Kenya where the majority are poor and cannot access credit facilities from commercial banks.

The performance of an MFI can be evaluated on the basis of the following core indicators: Outreach, that is, the number of clients served by an MFI; Client Poverty Level, that is, how poor the clientele is; Collection Performance, that is, how well the MFI is collecting
its loans; Financial Sustainability, that is, whether the MFI is profitable enough to maintain and expand its services without continued injections of subsidized donor funds and Efficiency referring to how well the MFI is able to control its administrative costs. (CGAP, 2013)

At the international level Muhammad Yunus of Bangladesh is considered as the father of modern microfinance institutions. He founded Grameen Bank (the Village Bank) in 1983 to give small loans at affordable interest rates to transform the lives of the poor particularly women. The focus was on women because they are very good in repayment of micro credit, they use profit from their businesses to send children to school, improve their families’ living conditions and nutrition and expand their businesses. The fruits of their businesses not only make an impact on themselves but entire the community. He further believed that all human beings were born entrepreneurs and that given credit they would unleash their full entrepreneurial capacity that would be of benefit to them and society in general (Yunus, 2012; Grameen Foundation, 2012)

In Kenya the Association of Microfinance Institutions of Kenya (AMFI) brings Microfinance under one roof. AMFI is a member institution registered in 1999 to build the capacity of microfinance institutions in Kenya. Currently AMFI has more than 53 member institutions serving over 6.5 million Kenyans.

Yehu Microfinance is a member of AMFI based in the coastal region mainly among the rural communities. It operates in the counties of Taita-Taveta, Kwale, Mombasa and Kilifi. It has seven branches spread across the coastal region of Kenya. It operates in an area facing myriads of challenges such as poor infrastructure, low literacy levels and a poor
economic environment. The organization focuses on serving the low income rural entrepreneurs particularly women within the coastal region with an aim of expanding to the entire country. It is based on the principles of Grameen Bank (YMTF, 2011)

Mutua (2006) observes that although MFIs are well funded by international agencies they lack strong institutional structures and managerial skills yet they operate in a specialized field that combines banking with social goals. To paraphrase La Riana and Hayes (2004) it's imperative for MFIs to embrace strategic management practises in order for them to play to win

It is in this context that this study set out to establish the effects of strategic management practices on Yehu Microfinance Trust Fund, Mombasa County.

1.2 Statement of the Problem

There is no evident research on the effects of strategic Management practices on Microfinance Institutions (MFIs) in Kenya in general and Yehu Microfinance Trust Fund in particular yet MFIs play a crucial role in transforming the lives of the poor in society. They are indeed an important tool of breaking the cycle of poverty in society. They provide micro-credit, savings, money transfer and insurance to the poor who can not access commercial banks due to lack of collaterals; they facilitate job creation as new small businesses are created and old one supported; they lead to financial stability as they create opportunities for extra income; they enable one to unleash their entrepreneurial potential and a feeling of worth and confidence obtained as one is involved in wealth-creation. (Yunus, 2012: Grameen Foundation, 2012)
Microfinance institutions face a myriad of challenges that greatly affect their performance. These are; they not cushioned against defaulting borrowers for loans are not secured by collateral; poor regulations and supervision of deposit-taking MFI’s; the high cost of giving out Micro-loans; the cost of processing so many micro-loans; assessing all potential borrowers in terms of their repayment prospects and security; administration of outstanding loans; collecting from diligent borrowers etc has to be done in all cases resulting into MFI's charging high interest rates; limited management capacity in MFI’s; Institutional inefficiencies; poor distribution system of Microfinance institutions and lack of information about Microfinance Investment Opportunities; Lack of customized solutions for the poor thus some MFIs grope in the dark as they try to understand the varied needs of micro entrepreneurs. (Fehmen, 2012)

These challenges can be addressed effectively by strategic management practices for as observed by Ansoff and McDonnel (1990) strategic management enhances organisational performance. It was therefore imperative to study the effects of strategic management practices on Yehu Microfinance Trust Fund, Mombasa County.

1.3 Purpose Statement

The purpose of this study was to establish the effects of strategic management practices on Yehu Microfinance Trust Fund, Mombasa County.

1.4 Objectives of the Study

1.4.1 General Objectives

The main objective of this study was to examine the effects of strategic management practices on Yehu Microfinance Trust Fund, Mombasa County.
1.4.2 Specific Objectives

This study was guided by the following specific objectives;

i) To examine the extent to which strategic management practices are adopted at Yehu Microfinance Trust Fund.

ii) To examine the effects of strategic management practices on Yehu Microfinance Trust Fund.

iii) To assess the relationship between strategic management practices and performance at Yehu Microfinance Trust Fund.

1.5 Research Questions

This study was guided by the following research questions:-

i) What is the extent of the adoption of strategic management practices at Yehu Microfinance Trust Fund?

ii) What are the effects of strategic management practices on performance at Yehu Microfinance Trust Fund?

iii) What is the relationship between strategic management practices and performance at Yehu Microfinance Trust Fund?

1.6 Significance of the Study

Findings from this study will bridge the knowledge gap that exit on the application of strategic management practices in Microfinance Institutions. More specifically the study will:-

i) Be valuable to scholars in strategic management and in particular future researchers on the application of strategic management practices in MFIs.
ii) Provide useful information to investors and the donor community on areas requiring intervention and support.

iii) Useful to the government in formulating legislations and policies related to Microfinance.

iv) Benefits Yehu Microfinance Trust in strengthening strategic management practices in the institution.

1.7 Scope of the Study

This study was conducted at Yehu Microfinance Trust Fund headquarters in Mombasa Town, Mombasa County.

1.8 Limitations of the Study

This study faced the following limitations: lack of trust from the Management of Yehu Microfinance concerning the aim of conducting the research; a case study approach, if shallow, makes generalization of findings unreliable.

1.9 Delimitation of the Study

Prior to the research, the researcher visited the organization for the purpose of familiarizing himself with the management and explaining to them that the research will be conducted specifically for academic purpose only.

The researcher collected extensive data in order to produce an in-depth examination and understanding of the entity being studied.
1.10 Basic Assumptions of the Study

This research was guided by the following basic assumptions: the respondents will be co-operative; the respondents will give correct information that will be helpful in the research project.

1.11 Organization of the Study

This research project report is structured as follows: the foregoing chapter present background to the study, statement of the problem, purpose, objectives and research questions, significance of the study, scope, limitations, basic assumptions and the organization of the study. Chapter two presents literature review on management practices and microfinance institutions as well as conceptual framework. Chapter three provides methodology that will be employed in the study. Chapter four provides research findings and chapter Five presents summary, conclusions and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter presents literature review of the concept of strategy, management practices, microfinance, gaps in the previous literature and conceptual framework upon which this study is based.

2.1 The Concept of Strategy

The term strategy is derived from the Greek word “Stratego” meaning “general set of manoeuvres carried out to overcome an enemy during combat” (Nutt and Backoff, 1992:56). This involved plans and logistics of supplying men, weapons, and other supplies to defeat an enemy. Soldiers were expected to match on and take orders without questioning them.

When the strategic methods and applications succeeded in the European war theatre particularly during the World War II where allied forces of USA, Great Britain, and France won due to superior strategic manoeuvres, most of the strategic planning applications were borrowed by business (Yabs, 2010).

Today managers gather operating and market intelligence in order to gain a competitive advantage over their enemies. They develop strategies to enable them to establish where a business is going to compete, what its goals should be and what policies will be needed to carry out those goals” (Porter, 1980: XVI).

Stainer (1979) observed that strategy has been borrowed by business with troops being substituted with resources; strategy is formulated by top management in an organization. It
refers to important actions necessary to realize organizational goals. It therefore answers questions such as what should the organization be doing? What are the ends we seek? And how should we achieve them.

Strategy can be defined as the framework which guides those choices that determine the nature and direction of an organization (Tregoe and Zimmerman, 1980). By strategy, managers mean their large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. It’s a company game plan “A strategy reflects a company’s awareness of how, when and where it should compete; against whom it should compete, and for what purpose it should compete” (Pearce & Robinson 2003: 4).

Mintzberg, Ahlstrand and Lampell defined strategy in five perspectives known as the 5P’s: Plan, Play, Pattern, Position and Perspective. A plan provides a roadmap by which the firm intends to achieve its goals. A play refers to how a firm manoeuvres its resources to attain organizational goals. A pattern refers to decisions and actions that drive the firm towards the attainment and organizational goals. The position a firm occupies gives it advantages, the access to the markets, clients and services. Thus the critical duty of top management is to match organizational competences (Internal resources and skills) with the opportunities and risks created by environmental changes in a way that will be effective and efficient. Perspective refers to peering into the firm’s future and understanding its internal strengths and weaknesses to be able to steer towards the intended future state (Yab, 2010).

In the words of Kimutai (2003) Strategy is the course we chart, the journey we imagine and at the same time, it is the course we steer and the trips we actually make. Even when
we embark on a voyage of discovery with no particular destination in mind, the voyage has a purpose, an outcome and an end to be kept in view.

2.2 Strategic Management Practices

Strategic Management practices is an all encompassing term referring to how environmental analysis is done, strategies are formulated, implemented and evaluated in an organization. It also refers to methods that are repeatedly used in evaluating the past, present and future plans by a particular organization. (Coultler, 2008; Scholes, 1990; Yabs, 2010). This study will be guided by Strategic Management practices discussed in 2.2.1-2.2.8 below:

2.2.1 Vision, Mission, Goals and Objectives

2.2.2 Vision Statement

A vision statement is developed to express the aspirations of an organization. It expresses what an organization would like to achieve or to accomplish within a given time-frame. It serves as a guide for choosing appropriate course of action. It focuses the energies and resources of the organization on achieving a desirable future. In some organizations the mission and vision statement are combined into a single statement while in others it is separated and is often in form of a single sentence. (Pearce and Robinson, 2003)

2.2.3 Mission Statement

According to Mintzberg (1985) a Mission describes the organization’s basic function in society, in terms of the products and services it produces for its clients. It describes the purpose of the organization as a whole and it total output as a system. (Pearce and Robinson, 2003)
It is foundation upon which priorities strategies, plans and work tasks are built on. Major components of a good mission statement are; Customers, Products or Services, Markets, technology, concern for public image and concern for employees (King and Cleland, 1979) King and Cleland (1979) highlighted the following benefits of a mission statements; ensuring unity of purpose within the organization providing a basis or standard for allocating organizational resources; establishing a general tone or organizational climate; serving as a focal point for individuals to identify with the organization's purpose and direction and to deter those who cannot participate further in the organization activities; to facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization and to specify organization purposes and then to translate these purposes into objectives in such a way that cost, time and performance parameters can be assessed and controlled.

2.2.4 Goals and Objectives

A goal is a desired future state that an organization attempts to attain. It is an open-ended statement that is not measurable and time-bound. Goals are important because organizations exit for certain purposes, the main one being the realization of their missions. Thus in most organizations, the key goals are survival, profit and growth (Sababu, 2001). Objectives on the other hand refer to specific result(s) an organization aims at achieving within a given time-frame and with the available resources. They are more specific than goals. According to Sababu (2001) they are “managerial commitment to achieve specific performance targets by a certain time period. They are measurable performance targets towards an organization’s mission and as a result, they are ends by themselves.”
2.2.5 Environmental Analysis

An organization does not exist in a vacuum but in an environment in which it operates and interacts with. It's therefore imperative to do an environmental analysis in order to come up with appropriate strategies.

As observed by David (2011) and Pearce and Robinson (2003) environmental analysis is the process of monitoring the organizational environment to identify both the present and future opportunities and threats that may hinder an organization ability to achieve its objectives. It also involves the scanning of the internal strengths and weaknesses so that appropriate strategies are developed.

Environmental analysis is done at three levels: internal, operating and remote environments. Internal analysis involves an audit of how well the organization’s resources are utilized for the realization of organisational goals. These resources are:- tangible assets such as production facilities, raw material’s, financial resources and so on, intangible assets as brand names, company reputation, technical knowledge and organizational capabilities such as the ability of combining assets, people and processes to transform inputs to desired outputs. The analysis of operating environment involves analysis of competitors, creditors, customers, labour and suppliers and how they impact on the organisation. Remote environment analysis involves an assessment of factors that originate beyond the organisation’s operating environment. These are political, economic social, technological, environment and legal factors.
2.2.6 Strategy Formulation

Strategy formulation entails determining appropriate course of action for achieving organizational objectives. It is the effective management of environmental opportunities and threats in light of the organizations weakness and strengths. It entails developing a vision and mission, doing an internal and external analysis, establishing long-term objectives, generating alternative strategies and choosing strategies to pursue (David 2011).

According to Wit and Meyer (2004) strategy formulation starts with situational analysis of both internal and external environments and identifying the critical issues such as major problems, threats, weaknesses, and or opportunities that require particularly high priority attention by management. It further includes producing a clear set of recommendation to strategically positioning of the organization to compete successfully. A good strategy should be effective in solving the stated problems; be practical, that is be applicable in the current situation with the available resources and be feasible, that is applicable within a reasonable time-frame, cost-effective, not overly disruptive and acceptable to the key stakeholders in the organization.

2.2.7 Strategy Implementation

Strategy implementation is the action stage of strategic management. It involves developing an implementation plan and mobilizing managers and employees to ensure that the new strategy is operational and effective in achieving the organization’s objectives. Strategy implementation is the most difficult stage in strategic management as it requires personal discipline, commitment and sacrifice. It depends on the manager’s ability to
motivate employees which is more of an art than a science. It cut across all divisions and departments requiring managers and employees to work as a team to successfully implement the strategy (David, 2001).

Kang’oro (1998) observes that strategy implementation embraces all of those actions that are necessary to put the strategy into practice. A good implementation plan will not only cause an appropriate strategy to succeed but it can also cure a questionable strategy while poor implementation cause a strategy – however appropriate it is-to fail.

As observed by David (2011) the challenges of strategy implementation is how to motivate managers and employees to understand and own the strategy so as to work towards achieving stated objectives.

2.2.8 Strategy Control

Strategy control is the process of tracking a strategy as it is being implemented identifying problems or changes in its underlying premises and making necessary adjustments.

It is concerned with guiding action as that action is taking place and when the end result is still several years off. It requires responsible managers to ask themselves the following two sets of questions; first, are we moving in the right direction? Are our assumptions about major trends and changes correct? Are we doing the critical things that need to be done? Should we adjust or abort the strategy? Secondly, how are we performing? Are objectives and schedules being met? Are costs, revenues and cash flows matching projections? Do we need to make operational changes? (Pearce and Robinson, 2003:319)

Yabs (2010) identifies three types of strategic control: Feed-forward controls; Concurrent controls and Feedback controls. Feed-forward controls are instituted during the
formulation of the strategy. They ensure timely commencement of work delivery of inputs in time, availability and quality control of all inputs and fulfilment of all formalities. These controls are to ensure that the firm or organization function properly.

Concurrent controls are in-built with the strategy to check progress from inside and to institute correct measures as implementation continues. They are sometimes called steering controls because they allow changes of direction of developments as situations demand. They include interim report, quarterly or monthly reports, international audit-exercises, quality control checks while production continues such as continuous assessment tests in colleges, drill exercises for disaster management and fire-drill for emergency fire exercises.

Feedback controls are those controls that are instituted after the strategy implementation is complete. These controls include end of the year results, results of a football match or end of a football season, end of exercise reports, audit exercise, financial reports, return on investments residual income, resultant costs, product quality.

2.3 The Link between Strategic Management Practices and Performance

According to Aaker (1998) the ultimate test of any business is its performance over a given period of time. Performance is closely linked to organizations’ strategies and how well they are implemented and controlled. Ansoff and McDonnel (1990) observes that the link between strategic management and performance is buttressed by studies conducted in America which found that deliberate and systematic formulation and implementation of strategies produces significantly better performance than unplanned opportunistic adaptive
approach. Better performance is based on benefits accruing from the adoption of strategic management practices.

Highlighting the works of Pearce and Robinson (1999) Thompson and Stickland (1993), Sababu (2007) outlines the following benefits, of strategic management; enhancing organizations ability to prevent problems and to adopt to environmental change, provision of integrated and co-ordinated guidance; it makes managers to more alert to the winds of change and reduce gaps and overlaps of individual activities; the involvement of most managers in strategy formulation improves their understanding of the productivity reward relationship in every strategic plan and thus heightens their motivation and that of the junior staff; provide managers with a rationale to evaluate competing budget request with a rationale to evaluate competing budget requests for investment capital and new staff, creating of more proactive management, which is conscious of environmental changes and brings the future to the present; reduces resistance to change as employees were involved in strategy formulation and implantation. It facilitates identification, prioritization and exploitation of opportunities and harmonizes the numerous decisions of individuals and groups; its improves co-ordination and control of activities and minimizes the effect of adverse conditions and changes; it integrate the behaviour of individuals forward thinking; it encourages a favourable attitude towards change and creates a framework for internal communication among personnel; it gives a degree of discipline and formulating to the management of an organization. All these contribute to better performance.
2.3.1 Performance Indicators for Microfinance Institutions

Measurement of performance in strategic terms is not easy. Oftentimes financial results are relied upon as proofs that the strategy is working or appears to be working. Thus it is possible to overlook signage of strategic success or failure particularly in not for profit organizations such as MFIs.

CGAP (2013) has developed a tool for measuring the performance of MFIs based on five core areas, namely; Outreach – This refers to the number of clients served by a MFI or the number of active accounts at a given time. Expanding the number of clients being served is an ultimate goal of all MFIs. However rapid expansion may be unsustainable especially during MFIs early years: Client Poverty Level – All MFIs are expected to reach poor clients. The best indicator of low-end clientele is the number of micro-loans: Collecting Performance- Repayment of MFIs loan is a crucial indicator of performance. Poor collection of micro-loans is indicative of managerial and systems weaknesses. The strongest repayment incentive for an MFI’s client is the desire to preserve her future access to a loan service she finds very useful to her and her family. Thus high repayment rates are a strong signal that the micro-loans are of real value to the clients: Financial Sustainability/profitability – Most of the MFIs are donor funded. However MFIs should aim at reaching sustainability within 10 years of start-up: Efficiency – Efficiency in MFIs is measured in terms of costs as a percentage of amounts on loan. Tiny loans are more expensive to make than large loans. Only very few MFIs are efficient enough to have an Operating Expense Ratio (OER) of below 10 percent. The average OER of MFIs is 30 percent which reflects
very high inefficiency. Commercial banks making larger loans have OERs of below 5 Percent. OER is calculated thus;

Operating Expense Ratio = Personnel and Administrative Expense 
Period – Average Gross Loan Portfolio

Source: CGAP (2013)

2.4 Microfinance Institutions

The Association of Microfinance Institution (AMF, 2012) defines Microfinance as the provision of Micro-credit as well as other services such as savings, deposits, insurance services and other financial instruments/products aimed at the poor or low-income people. Microfinance Institution on the other hand is an institution set-up for and primarily dealings with the provision of microfinance services.

Fehmen (2012) observes that microfinance entails provision of financial services to micro-entrepreneurs and small businesses that lack access to commercial banks due to lack of collaterals and the high costs associated with serving these client categories as they are consumers of Micro-loans. These low end clientele are served through two mechanisms; Relation-based banking for individual entrepreneurs and small businesses and group-based models where several entrepreneurs come together to apply for loans and other services as a group.

Microfinance institutions are powerful tools of fighting poverty on a large scale. This is because unlike commercial banks, no collateral is required to get a loan from the institutions. They give micro-loans that are usually repaid within six months to a year to
poor people mostly women to start or expand very small self-sufficient businesses. Through that own ingenuity and drive and the support of the lending Microfinance Institutions (MFI) poor women are able to start their journey out of poverty. A borrower receives advice and support from the MFI that issued her the loan and support from other borrowers just like her. As the business grows and diversifies she begins to earn enough to improve the living conditions for her and her family.

Microfinance clients boost very high repayment rates averaging 95% and 98%. These funds are then recycled as other loans, keeping money working and in the hands of borrowers (Yunus, 2012)

Yunus further observes that Microfinance institutions are very client focused. Some visits the borrower’s place of business to advice, issue loans and collect payments. Other MFIs host weekly borrowers meetings at the local centres where the transactions and other local centres where the transactions and other social services take place. During these meetings borrowers empower each other to stay on the break the poverty cycle by sharing success and discussing ideas for solving business and personal problems.

2.4.1 The Challenges Microfinance Institutions Face

Microfinance institutions face both financial and operational challenges as highlighted hereunder.

MFI’s are not cushioned against defaulting borrowers for loans are not secured by collateral; poor regulations and supervision of deposit-taking MFI’s; the high cost of giving out Micro-loans; the cost of processing so many micro-loans; assessing all potential
borrowers in terms of their repayment prospects and security; administration of outstanding loans; collecting from diligent borrowers etc has to be done in all cases resulting into MFI’s charging high interest rates.

Other challenges are; limited management capacity in MFI’s, Institutional inefficiencies, poor distribution system of Microfinance, institutions and lack of information about Microfinance Investment Opportunities; Lack of customized solutions for the poor thus some MFIs grope in the dark as they try to understand the varied needs of micro entrepreneurs; The Dual Missioning of MFIs, that is, to be financially sustainable as well as development oriented. (Fehmen, 2012)

Fehmen (2012) further identified high interest rates charged at a globe average of 37% per annum as the principal challenge of MFI’s. This high interest rate is a result of the high transaction cost of processing too many micro-loans with each loan undergoing processing and monitoring and interaction with borrowers. They further observe that offering loans at an interest rate of 37% per annum means that borrowers who do not manage to earn at least 37% rate of return may actually end up poorer as a result of accepting MFI’s loans.

2.5 Gaps in Previous Literature

Atieno (1998) Dondoo (2000), Oketch (2001), Mutua (2006), Maghanga (2007), Wambugu (2007) and Mwaura (2008) have conducted research in Microfinance. Their research were in the core business of microfinance and access to credit, the linkages between MFI’s and Commercial Banks, the perception of Microfinance loans by borrowers, the financial and social impact of Microfinance lending and factors influencing Credit Risk Management in Kenya respectively.
Aosa (1992), Karemu (1993), Kang’oro (1998), Kiruthi (2001) and Mugambi (2003) have done research in strategic Management practice focusing on the following areas; Manufacturing, retailing, Public Sector, Not-for-profit organizations and shipping respectively. These researchers recommended more research on strategic management practices in different sectors of the economy.

Thus this study will bridge the literature gap that is evident in the two sets of studies and further expand the horizon of knowledge on strategic management practices in Kenya.

2.6 Conceptual Framework

This study will be guided by the following independent and dependent variables as described in 2.0-2.3.8 above

2.6.1 Independent Variables: vision, mission, goals and objectives, environmental analysis strategy formulation, strategy implementation and strategy control.

2.6.2 Dependent variables: the dependent variable of this research will be performance with outreach, clientele, collecting performance, financial stability and efficiency being the performance indicators.
2.6.2 Conceptual framework illustrated

Vision, Mission
Goals and Objectives

Environmental Analysis

Strategy Formulation

Strategy Implementation

Strategy Control

Performance indicators
1. Outreach
2. Clientele
3. Collecting performance
4. Financial stability
5. Efficiency

Dependent Variables

Source: Researcher (2013)
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides an explanation and description of methods and procedures employed in the study. These are: research design, target population, sample design, research instrument, validity and reliability, data collection procedure, data analysis and presentation.

3.1 Research Design

A case study and descriptive research designs was adopted to establish the status of strategic management practices at Yehu Microfinance Trust.

According to Yin (1984) case studies provide a very focussed and valuable insights to the phenomena that may otherwise be vaguely known or understand. This is further reinforced by Mugenda and Mugenda (2003) who observe that case studies allow a research to conduct an in-depth investigation of an individual, group, institution or phenomenon. This enables the researcher to determine factors and relationships among the factors that have resulted in the behaviour under study. Thus the investigation makes a detailed examination of a single subject, group or phenomenon. A descriptive research design will also be adopted for this study. This design allows the researcher to gather information, summarize, interpret and present it. (Borg and Gall, 1989; Orodho, 2002)

Yehu Microfinance Trust Fund was selected through simple random sampling of AMFI members. As observed by (Orodho, 2009) simple random sampling is a procedure in which each individuals in the target population has an equal chance of being selected as a
member of the sample. This makes it possible for the data obtained from the research to be generalized to the larger population

3.2 Target Population

This study targeted all levels of management at Yehu Microfinance Trust Fund headquarters in Mombasa, to establish how strategies are formulated, implemented and controlled in the organization. The target population consisted of the Chief Executive Officer (top management) departmental heads (middle management) and supervisors (line management) as shown in the table below:

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Position</th>
<th>No. of managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.E.O</td>
<td>1</td>
</tr>
<tr>
<td>Department Head</td>
<td>6</td>
</tr>
<tr>
<td>Supervisors</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

Given the small size of target population, census method, where all members of the target population are included in the study, will be employed in line with the recommendation of Neuman (1991).

3.4 Research Instruments

Both primary and secondary data was collected and used for the study. Semi-structured interview guide was used to obtain information from the C.E.O. This facilitated collection
of in-depth information as it give the respondents an opportunity to give an insight into their feelings, hidden and deeper motivations, interests and decisions. It further enables the researcher to follow leads and new topics that arise in the course of the interview. Questionnaire was used to obtain information from the departmental heads and supervisors. Questionnaires facilitate collection of data from a large sample, saves on time and uphold confidentiality. The researcher also employed observation as a tool of data collection. This is because direct observation provides more insight on the actual behaviour and enables the researcher to put behaviour into context (Best and Khan, 1987: Bell, 2010: Orodho, 2009)

Document analysis of the available data from existing institutional records will be used to supplement the primary data. These will be drawn from internal circulars, staff correspondences, newsletters, Yehu products, plans and website. In addition more information will be obtained from the AMFI’s website.

3.4.1 Instrument Validity and Reliability

Validity is the degree to which a test measures what it is intended to measure. It’s the degree to which the research results obtained from the analysis of the data actually represent the phenomenon understudy (Borg and Gall, 1989)

To enhance instrument validity, instruments by previous researchers in strategic management were studied and the instruments developed by the researcher were reviewed by the supervisor and peers.
Instrument reliability on the other hand is the extent to which a research instrument produces similar results on different occasions under similar conditions. It’s the degree of consistency with which it measures whatever it is meant to measure (Bell, 2010)

To enhance reliability equivalent form method was used. This involves estimating reliability of an instrument used by using two equivalent instruments to measure the same concept (Orodho, 2009). The researcher used interview guide to obtain information on the C.E.O. and questionnaires on departmental heads and supervisors to obtain information on the same concepts. High correlation between the two sets of data will signify high reliability

3.5 Data Collection Procedure

The researcher personally administered the research instruments. This enables the researcher to establish rapport, explain the purpose of the study and the meaning of items that may not be clear as observed by Best and Khan (1987)

The researcher visited Yehu Microfinance Trust Fund Headquarters in Mombasa and made arrangements with the C.E.O. on the most suitable days and time for administering the research instruments.

The respondents were assured that strict confidentiality in handling of any information received will be maintained.

3.6 Data Analysis and Presentation

Kerlinger (1986) defines data analysis as the process of categorizing, manipulating and summarizing data in order to obtain answers to research questions. In this study data collected through in-depth interview, questionnaire and observation was edited for
completeness and consistency before being processed. This being a qualitative research, content analysis was used to analyze data collected. Content analysis allows researcher to describe the form or content of written materials (Bell, 2010)

Based on Zina (2010) recommendation on the analysis of qualitative data, collected data was organized, sorted out, coded and thematically analysed, searching for meaning, interpreting and drawing of conclusions on the basis of concepts, management practices and conceptual framework discussed in Chapter Two. Frequency tables and percentages were also be used to analyse and present data.
CHAPTER FOUR

RESEARCH FINDINGS

4.0 Introduction

This chapter presents the study findings and their interpretation on the basis of the research objectives and conceptual framework in Chapter One and Two respectively.

4.1 The Profile of Yehu Microfinance Trust Fund

The study established that Yehu Micro Finance was established in 2007 to provide sustainable microfinance services to socio-economically marginalized rural entrepreneurs, in the coastal region of Kenya, who have a business or wants to start an income generating activity but lacks capital. The organization has seven branches covering Kwale, Kilifi, Mombasa, Kaloleni, and Voi County. It has a wide range of loan products, namely; Business loan, Elimu loan, Poultry loan, Meat Goat loan, Top up loan, Maji ni Uhai Loan (Water loan), Mabati loan, Afya loan and Sikukuu loan. The organization further provide saving services and free leadership and basic business skills to its clients.

The supreme administrative organ of Yehu Microfinance is the Board of trustees. Currently the Board is made up of ten highly qualified and experienced persons. Two trustees are PhD holders while the third is a PhD candidate. The rest are holders of the first degree. The same tread is replicated in the management team headed by the C.E.O who is a PhD candidate with vast experience in strategic management and microfinance industry. The organization has six departments headed by Internal Auditor, Operations Officer (Credit), Operations Officer
(Business Development), Human Resource Officer, Chief Finance Officer and Management Information System Officer, all holders of first degrees.

Yehu microfinance is affiliated to the Association of Microfinance Institutions of Kenya (AMFI), Triple Jump Advisory Services (TJAS) KIVA and Coast Coconut Farms in line with its vision and mission.

4.2 Vision and Mission Practices

The study established that Yehu microfinance has vision and mission statements. The organization’s vision is “To become the leading MFI in the Coastal region that responsively and cost-effectively provided sustainable financial services to socio-economically marginalized rural entrepreneurs.” The mission statement reads thus; “To empower rural marginalized entrepreneurs socially and economically through enhanced accessibility to innovate, affordable and sustainable financial solutions that are environmentally friendly.”

These statements were developed by top management to give direction to the organization. These statements are communicated to employees, clients and other stakeholders through literature materials such as brochures, the organization website, meeting, workshop and display on the office walls.

4.3 Goals and Objectives Practices

It was established that corporate goals and objectives were formulated by management through brainstorming session in line with the organization vision and mission statements. Once they are done they are communicated to the employees through meetings, workshops
and internal memos. Corporate goals and objectives are then broken into departmental and units goals and objectives, by middle and line managers in order to ensure harmony and unity of direction.

The study established the following objectives of the organization: optimized operational efficiency; develop capable and performance driven workforce; enhanced product offering and customer service; loan portfolio growth to kshs.600m and at least 30,000 clients by 2014; enhanced board capability, leadership and performance.

4.4 Strategy Formulation Practices

This study established that environmental analysis is done to provide managers with the necessary information to begin strategy formulation process. This involves two important management tools in strategy formulation process; Critical Question Analysis and SWOT Analysis. Management relied on secondary sources of information as well as direct source of information from major stakeholders to develop strategies in a bottom-up approach with guidance from the management.

It was also established that although strategy formulation was participatory the following had the overall responsibility of developing different types of strategies: corporate strategies were formulated by top management; business strategies were developed by the C.E.O and the Departmental Heads while operational or functional strategies were done by Departmental heads in consultation with the line managers. Some of the operational and functional strategies include marketing, products/services, finance, human resource management (HRM) and information systems.
4.5 Strategy Implementation Practices

The study established that in order to ensure success, strategy is translated into implementable activities and tasks or deliverables that are assigned to various people in the organization. Detailed annual plans are broken down to weekly deliverables which are tracked accordingly at all levels of administration from the smallest unit to the entire organization. Guidelines for the daily activities of the organization members are worked out and given to employees while managers are charged with the responsibility of directing and controlling actions and outcomes. Tools and structures have been put into place in form of templates and regular meetings and also remedial actions to address any deficiencies. A lot of effort is given to implementation as the organization realizes the crucial role of this stage of strategy.

4.6 Strategy Control Practices

Strategy control at Yehu Microfinance involves monitoring, evaluating and improving various activities that take place within an organization with an aim of making something happen the way it was planned to happen. This entails regular tracking of defined deliverables. Monitoring is done concurrently with strategy implementation so that if there variations there are corrected early enough while evaluation is done at the end of the period, where the actual are measured against the targets at the beginning of the period. Any variation is similarly corrected.
4.7 Performance

This study established has established that the organization has reaped the following benefits from the adoption of strategic management practices: rational and optimal utilization of resources; good coordination of activities and actions of all workers and departments; enables managers to formulate and focus on short term and long term goals with a view to realizing corporate goals and objectives; enables managers to strategically match the organization activities to the environment in which it operates; pro-active managers who are alert to wind of change; obtaining competitive edge over competitors and a motivated human resource as strategic management practices are inclusive and participatory.

It was also established that the organization performance improved with adoption of strategic management practices in the following key performance areas: Outreach; the number of clients served by Yehu micro finance has steadily increased with adoption of strategic management: Client poverty level; strategic management practices have enabled Yehu micro finance to reach low end client who are out of any saving or credit system. This is evidenced by the increasing number of micro loans processed by the organization: collecting performance and efficiency have improved over the years: the organization is now more financially sustainable depending less and less on donor support.

The study established the following ways of making strategic management more successful and participatory in MFIs: empowerment of staff; embracing appropriate leadership approaches; appropriate organizational structures; inculcating appropriate organizational culture.
5.0 Introduction

This chapter provides summary, conclusions, recommendations and suggestions for further studies.

5.1 Summary

This study set out to meet three objectives, namely, to examine the extent to which strategic management practices are adopted at Yehu micro finance Trust Fund; to examine the effects of strategic management practices on Yehu microfinance Trust Fund and to assess the relationship between strategic management practices and performance at Yehu microfinance Trust Fund. All these objectives were met as shown below: the study established that the adoption of strategic management practices at Yehu microfinance is fairly good and participatory. Vision and mission statements have been done and communicated to internal and external stakeholders. Goals and objectives have been formulated and implemented. Corporate goals and objectives are done by top management while departmental goals and objectives are done by departmental heads. Strategy formulation, implementation and control are done by top management but with the input of departmental heads and line managers.

The study established the following effects of strategic management practices on Yehu microfinance; rational and optimal utilization of resources; good coordination of activities and actions of all workers and departments; enables managers to formulate and focus on short
term and long term goals with a view to realizing corporate goals and objectives; enables managers to strategically match the organization activities to the environment in which it operates; pro-active managers who are alert to wind of change; obtaining competitive edge over competitors and a motivated human resource as strategic management practices are inclusive and participatory. It also established that the organization performance improved with adoption of strategic management practices in the following key performance areas:

Outreach: the number of clients served by Yehu micro finance has steadily increased with adoption of strategic management: Client poverty level; strategic management practices have enabled Yehu micro finance to reach low end client who are out of any saving or credit system. This is evidenced by the increasing number of micro loans processed by the organization: collecting performance and efficiency have improved over the years: the organization is now more financially sustainable depending less and less on donor support.

It is evident from the findings summarised above that there is a close relationship between strategic management practices and performance at Yehu microfinance institution.

5.2 Conclusions

It’s evident from the findings in chapter four and the summary above that strategic management practices are well adopted in Yehu micro finance. As a result the organization has reaped great benefits such as improved performance based on key performance indicators discussed in Chapter three, namely, outreach, client poverty level, collecting performance, financial sustainability and efficiency. Other benefits which have cumulatively led to improved performance are: rational and optimal utilization of resources; good coordination of
activities and actions of all workers and departments; enables managers to formulate and focus on short term and long term goals with a view to realizing corporate goals and objectives; enables managers to strategically match the organization activities to the environment in which it operates; pro-active managers who are alert to wind of change; obtaining competitive edge over competitors and a motivated human resource as strategic management practices are inclusive and participatory.

It is therefore evident from the findings of this study that there is a close relationship between strategic management practices and performance at Yehu microfinance institution. Adoption of strategic management practices has led to improved performance.

5.3 Recommendations

The findings of this research reveal that there is a close link between adoption of strategic management and performance in Yehu micro finance institution. It’s therefore imperative that all microfinance institutions adopt strategic management practices for improved performance and for the benefits of their stakeholders. There is need for donors in microfinance sector to peg their continued engagement on the adoption and evaluation of strategic management practices by microfinance institution. There is also need to enhance capacity building, in strategic management in microfinance institutions, by donors, government agencies and other agencies so that MFI's can reap the benefits of strategic management practices.
5.4 Suggestions for Further Studies

The analysis of findings from this study has indicated the following areas that future researcher could be interested in: replication of this research in other micro finance institutions; in-depth and broad research on how internal and external environments affect strategic management in Microfinance institutions and an empirical study on the socio-economic impact of microfinance institutions in Kenya.


http://www.davedolak.com/articles/dolak5.htm


Accessed on 25th/02/2013


Accessed on 25/01/2013

Dear Respondents,

RE: INTRODUCTORY LETTER

I am a student at Kenyatta University pursuing an MBA Course. As part of the course requirements, I am carrying out a research project based on your organization titled:

“The Effects of Strategic Management Practices on Yehu Microfinance Trust, Mombasa County”

The purpose of this letter is to kindly request for your assistance and co-operation in providing the required information for this study. You are further informed that any information given will be treated with utmost confidentiality and will be strictly used for the academic purposes only.

Your co-operation will be highly appreciated.

Thank you.

Julius Njihia Mucheke
Appendix B

INTERVIEW GUIDE

STRATEGIC MANAGEMENT PRACTICES

VISION AND MISSION

1. Does your organization have vision and mission statements?

2. If yes, how were they developed?

3. How are they communicated to the employees and the clients?

GOALS AND OBJECTIVES

1. What is the process of developing goals and objectives in your organization?

2. What practices do you have in place to realize your goals and objectives?

STRATEGY FORMULATION

1. How do you scan your business environment?

2. How do you formulate strategy in your organization?

STRATEGY IMPLEMENTATION

1. Describe the process of implementing strategies in your organization

2. What practices have you put into place to facilitate implementation of strategy?

STRATEGY CONTROL

1. How do you monitor the implementation of strategy in your organization?

2. How do you utilize information obtained through strategy control?

PERFORMANCE

1. What is the effect of strategic management practices on your organization performance in the following key areas?

(a) Outreach (What is the impact of strategic management practices on the number of clients served by your microfinance?)
(b) **Client Poverty Level** (What is the impact of strategic management practices on your organization's ability to reach low-end clientele?)

(c) **Collecting performance** (What is the effect of strategic management practices on your organization's ability to collect micro-loans?)

(d) **Financial Sustainability** (What is the effect of strategic management practices on your organization's profitability or financial sustainability?)

(e) **Efficiency** (What is the effect of strategic management practices on your organization's operating expense ratio (OER) or the ability to cut down on the cost of making tiny loans?)

2. What makes a MFI a success?

3. Is there a link between strategic management practices and performance in your organization?
   
   If yes, please expound

4. Suggest ways of making strategic management practices in your organization more successful and participatory?
Appendix C

Questionnaire

VISION, MISSION AND OBJECTIVES

1. Does your organization have the following statements?

Vision ☐ Yes ☐ No

Mission ☐ Yes ☐ No

Objectives ☐ Yes ☐ No

If yes, state them below;

Vision
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Mission
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2. Were you involved in the development of the above statements?

☐ Yes  ☐ No

If yes, please explain the role that you played

3. How are the vision, mission and objectives of your organization communicated to the employees and clients?
STRATEGY FORMULATION

1. Is there a planning department in your organization?
   ☐ Yes ☐ No

2. How are strategies formulated in your organization?
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3. Have you ever participated in strategy formulation in your organization?
   ☐ Yes ☐ No
   If yes, what was your role?
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4. How do you collect information on the various aspects of your business environment?
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5. How would you describe your business environment?

- Turbulent
- Fairly turbulent
- Very Turbulent

- Stable
- Fairly stable
- Unstable

6. Are your strategies put in writing once they are developed?

- No
- Yes

If yes, explain how

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7. What would you consider to be your organization’s,

(i) Strengths?

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(ii) Weaknesses?

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8. In your own opinion, how can the process of strategy formulation be improved?

9. Does your department have its strategies?
   □ Yes        □ No

If yes, name the department and explain how they were developed.
STRAIGHT IMPLEMENTATION

1. Who is in charge of strategy implementation in your organization?

2. How is strategy implemented?

3. Have you ever been involved in strategy implementation in your organization?
   - [ ] Yes
   - [x] No

   If yes, in what was your role?

STRAIGHT CONTROL

1. Who is in charge of strategy control?
2. How is strategy control done in your organization?

_____________________________________________________________________________________

_____________________________________________________________________________________

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_____________________________________________________________________________________

3. (a) Have you ever been involved in strategy control?

☐ Yes ☐ No

If yes, describe the role that you played

_____________________________________________________________________________________

_____________________________________________________________________________________

_____________________________________________________________________________________

_____________________________________________________________________________________

PERFORMANCE

1. What is the effect of strategic management practices on your organization performance in the following key areas?

(a) Outreach (What is the impact of strategic management practices on the number of clients served by your microfinance?)

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52
(b) **Client Poverty Level** (What is the impact of strategic management practices on your organization's ability to reach low-end clientele?)

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(c) **Collecting performance** (What is the effect of strategic management practices on your organization's ability to collect micro-loans?)

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(d) **Financial Sustainability** (What is the effect of strategic management practices on your organization's profitability or financial sustainability?)

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(e) **Efficiency** (What is the effect of strategic management practices on your organization's operating expense ratio (OER) or the ability to cut down on the cost of making tiny loans?)

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2. What makes a MFI a success?
3. Is there a link between strategic management practices and performance in your organization?

☐ Yes  ☐ No

If yes, expound

4. Suggest ways of making strategic management practices in your organization more successful and participatory?

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THE END

Many Thanks for Finding Time to Fill this Questionnaire