

**STRATEGIC RESPONSE AND PERFORMANCE OF MICROFINANCE  
INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA**

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**D53/MSA/PT/32768/2015**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF  
BUSINESS, ECONOMICS AND TOURISM IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION  
(STRATEGIC MANAGEMENT) OF KENYATTA UNIVERSITY**

**OCTOBER, 2024**

## DECLARATION

This research project is my original work and has not been presented for any award in any other University. No part of this project should be reproduced without authority of the author or/and Kenyatta University.

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## **DEDICATION**

This research project is dedicated to my family for their support and encouragement during the process of developing this research project.

## **ACKNOWLEDGEMENT**

First and foremost, I thank the Almighty God for granting me the energy and resources to pursue my education to this level. Special thanks go to my supervisor Mr. Maina Rugami for his excellent guidance and critically guiding me throughout all the stages of developing this research project. My special thanks equally go to my close friends for sharing a lot of inspirational ideas and the continuous encouragement throughout the project. May God bless you.

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## **ABBREVIATIONS AND ACRONYMS**

<b>AFC</b>	Agricultural Finance Corporation
<b>AMFI</b>	Association of Microfinance Institutions
<b>CBK</b>	Central Bank of Kenya
<b>GDP</b>	Gross Domestic Product
<b>IMF</b>	International Monetary Fund
<b>KPOSB</b>	Kenya Post Office Savings Bank
<b>MFBS</b>	Micro finance banks
<b>MFIs</b>	Micro Finance Institutions
<b>NACOSTI</b>	National Council of Science, Technology and Innovation
<b>NGO</b>	Non-governmental organizations
<b>PLS</b>	Partial Least Squares
<b>RBV</b>	Resource-Based View
<b>SACCO</b>	Savings and Credit Cooperative Organization
<b>SCT</b>	Structural Contingency Theory
<b>SPSS</b>	Statistical Package for Social Sciences

## OPERATIONAL DEFINITION OF TERMS

<b>Organizational performance</b>	Refers to the effectiveness and efficiency with which micro finance institutions achieve their objectives and deliver financial services to underserved populations. It was measured in terms of market share, customer satisfaction and quality service.
<b>Strategic response</b>	Refers to the actions and decisions made by micro finance institutions to adapt to changing market conditions, regulatory environments, and client needs. It was measured in terms of strategic planning, product design, training and development and restructuring.
<b>Strategic planning</b>	Refers to the systematic process of defining an micro finance institution's direction and making decisions on allocating its resources to pursue this direction. It was measured in terms of setting objectives, budget allocation and performance review.
<b>Product design</b>	Refers to the process of creating financial products and services that cater specifically to the needs of low-income individuals and communities. It was measured in terms of unique products, reliability and integration.
<b>Training and development</b>	Refers to the systematic process of enhancing the skills, knowledge, and competencies of employees. It was measured in terms of skills, expertise and knowledge.

**Restructuring**

Refers to the process of reorganizing the operational, financial, or organizational framework of micro finance institutions to enhance their efficiency, sustainability, and ability to serve their target populations effectively. It was measured in terms of cost reduction, talent management and new opportunities.

**Microfinance institution**

Refer to institutions offering banking service to low-income individuals or groups who otherwise wouldn't have access to financial services.

## ABSTRACT

Microfinance institutions (MFIs) in Kenya play a crucial role in providing financial services to underserved populations, particularly small-scale entrepreneurs and low-income households. However, they face a myriad of challenges that can hinder their effectiveness and sustainability such as regulatory challenges, access to capital, operational challenges client repayment issues, market competition and technology adoption. Therefore, this study sought to investigate the influence of strategic response on the performance of microfinance institutions in Nairobi City County, Kenya. The study specific objectives were to examine the influence of strategic planning, product design, training and development and restructuring 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. 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. The study recommends that the organizational management should investing plenty of time upfront to map out the strategic planning process. The organizational management need to have a clear understanding of what problem they are solving and how their product is the best solution. 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 identify and select leaders at each critical level of the organization who can become change champions.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background to the Study**

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.

### **1.1.1 Organizational 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.

The organizational performance refer to be evaluation an organizational through the lens of operational efficiency, focusing on how well an organization utilizes its resources to achieve its goals which includes assessing productivity levels, process optimization, and the ability to innovate (Owen, Mundy, Guild & Guild 2021). Wood (2023) defines organizational performance by highlighting the importance of strategic alignment, suggesting that performance should be measured by how effectively an organization executes its strategic objectives and adapts to changing market conditions.

Globerson (2020) definition of organizational performance is based on stakeholder approach, which considers the interests and outcomes for various stakeholders, including employees, customers, suppliers, and the community. This perspective posits that true organizational performance encompasses not only financial success but also the organization's impact on society and the environment. Kang and Sorensen (2022) define organizational performance as heavily reliant on financial metrics, which are crucial for assessing a company's effectiveness and success. Key metrics include profitability, indicating financial health and operational efficiency; return on investment (ROI), which measures gains relative to investment costs; and revenue growth, reflecting sales increases and market competitiveness.

Agwu (2019) observe that the focus of organizations on the target market in order to give out the expected and necessary satisfaction made it vital to say that customer satisfaction is a valuable tool that must be given to customers by organizations if organizations must achieve their core business objective which is profitability. Batt

and Doellgast (2020) observe that market share is a key indicator of market competitiveness, that is, how well a firm is doing against its competitors. Given the ever increasing pressure on marketing executives to account for marketing activities within the firm, examining market share profitability relationship and strategic value of marketing metrics is of paramount importance to organizational performance. Performance variable in this study was measured in terms of market share, customer satisfaction and quality service.

Ahmed, Khuwaja, Brohi, Othman and Bin (2018) observe that every organization seeks to be more effective and achieve superior results. Efficiency is linked to an organization's ability to design a unique model of embracing business opportunities through exchange relationships and its therefore an important way in which the organization interacts with its environment to generate a sustainable growth. According to Fakhri, Menacere and Pegum (2021) for effective creation of organizational effectiveness, business leaders need to focus on aligning and engaging their people, the people management systems, and the structure and capabilities including organizational culture to the strategy.

Organizational performance is an organization's ability to obtain and use scarce cash and assets, or to achieve operational objectives as rapidly as possible. As a result, organizational success is decided by the organization's ability to respond effectively and efficiently to threats and opportunities while fully comprehending the strengths and limitations at hand (Peña & Villasalero, 2020). According to Shah and Dubey (2021) an effective organization can use information about its past and current trends, as well as knowledge of alternative methods, to make decisions that are most beneficial to the business.

High levels of customer satisfaction are a business objective for every organization and a key to success, according to Barsky and Labagh (2018). The revenue of the company is impacted by customer satisfaction. However, low customer satisfaction levels also increase the likelihood that the organization's retention rates will be low. Churchill and Surprenant (2019) note that an organization can enhance the experience for its customers, increase customer satisfaction, and raise its retention rates based on customer insights. Therefore, client pride is essential due to the fact it illustrates whether or not the purchaser base likes the products and services of the organization.

Hameed, Nisar, Abbas, Waqas and Meo (2019) observe that Pakistan, though a late starter in this industry, has also made considerable developments in Microfinance. Though Non-Government Organizations (NGOs) and Rural Support Programs (RSPs) have been providing micro-credit in the country since the 1980s, but the coverage and scope of their operations has generally been rather limited. According to Imran and Shafique (2022) the enhanced international focus on microfinance at the advent of the new millennium has accelerated the growth of the Microfinance sector in Pakistan. Despite the existence of MFIs operating at various levels, the penetration of the sector is still low as the outreach of MFIs is only around 4 percent of the total potential market of 25-30 million borrowers. This low level of coverage is generally linked with the relatively recent focus on Microfinance as one of the viable components of the financial sector.

Uganda is generally seen as the country with the most vibrant and successful microfinance industry in Africa. Some MFIs have experienced strong growth and are now reaching a considerable number of clients, with three serving between 25,000 and 45,000 clients (Nkurunziza, Munene, Ntayi & Kaberuka, 2019). A number of microfinance providers are close to financial sustainability or have already surpassed

it. A series of impact studies conducted in Uganda in the past years have demonstrated that the provision of microfinance services contributes to reduced client vulnerability to economic risks, results in strengthening linkages of clients and their households to the agricultural sector, and enables clients to acquire valued skills. Moreover, all observers agree that the success of microfinance in Uganda is closely linked to a number of enabling contextual factors specific to the country (Aliija & Muhangi, 2017; Orichom & Omeke, 2021).

In Kenya, The Kenya Microfinance sector began in the late 1960s with NGOs setting up pilot programs providing donor funded credit services. Some of the organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions with over 100,000 citizens (Gatimu, 2019). According to Muithya and Muathe (2020) the growing interest in commercial microfinance institutions (MFIs) is related to the recent recognition on the part of some policymakers that informal sector is very large and its performance can be improved with the removal of legal and financial constraint. Low income earners in the informal sectors have been seen as those who need to be absorbed to the formal sector ignoring their contribution to the economy, yet microenterprises provide an income stream for poor entrepreneurs as well as create employment.

### **1.1.2 Strategic Responses**

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.

Kozachenko, Anand and Shirokova (2022) define strategic response as the process through which organizations modify their strategies in reaction to changes in market conditions, competitive dynamics, or technological advancements. This perspective highlights the need for organizations to be agile and responsive to maintain their competitive edge. Strategic response is also defined by Clemens and Douglas (2023) as involvement of the deliberate distribution of financial, human, and technological resources to capitalize on emerging opportunities or mitigate potential threats. This approach underscores the importance of strategic planning and resource management in achieving organizational goals.

Strategic responses enable organizations to maximize on their core competencies to be able to provide value adding goods and services. Organizations that embrace strategic responses have a better performance compared to those that fail to implement strategic responses (Ketchen & Palmer, 2019). Lee and Grewal (2021) observe that strategic responses have been used by organizations to improve quality, increase productivity, reduce costs, and restructure and build culture and also involve changes in the organization's methods, procedures, and processes to achieve certain organizational objectives. In this study strategic response was measured in terms of strategic planning, product design, training and development and restructuring.

Strategic planning is a method for establishing the company's specific long-term goals, processes for developing and reviewing various options and a mechanism for tracking program outcomes while operating (Sila & Ebrahimpour, 2015). Glen and

Weerawardena (2017) observe that Strategic planning enhances organisation's efficiency through streamlining processes, improving time management and maximizing capital effectively. Strategic planning therefore requires the use of the relevant information to determine whether certain strategic activities can be optimised.

Langerak, Hultink and Robben (2017) observe that product design is a key strategic practice in many companies as new products make a significant contribution to sales revenue and if companies may create unique products, they have the option of commanding premium prices. According to Adams, Day and Dougherty (2020) product design is a key factor in increasing the organization as it defines the qualities, functionality and efficiency of the service or product that customers need. Therefore, the goal of product design is to build good or service of outstanding practical functionality and revenues at an acceptable cost and within a reasonable period of time.

Employee training is one of the vital tools that help to enhance effective organizational performance and at the same time helps to promote the stability index of the organization and it is very crucial for the organization to exert extra efforts and invest much in employee training if it wants to achieve its objectives in the most economical way (Russell, Terborg & Powers, 2018). According to Khan, Khan and Khan (2019) effective training programs help in building a supportive and conducive learning environment to the workforce and at the same time help them to deal effectively with foreseeable challenges easily and in time. Therefore, committing to effective and ongoing training to the employees enables them to cope up with the changes hence better performance.

Bartunek and Franzak (2018) observe that restructuring is the act of changing the business model of an organization to transform it for the better. These changes can be legal, operational processes, ownership, etc. The cause of such a shift in the company can be either external or internal. According to Useem (2020) organizational restructuring involves conducting an organizational assessment to identify areas of competence, improvement, and potential risks and applying the findings to inform strategic solutions. Therefore, when an organization identifies inefficiencies it can streamline its processes by eliminating redundant or unnecessary programs and focusing its efforts on higher priorities that lead to better performance.

### **1.1.3 Micro Finance Institutions in Kenya**

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).

The microfinance industry in Kenya comprises of various types of competing institutions which vary in formality, professionalism, visibility, commercial orientation, geographical coverage and size. These institutions are registered and regulated and/or supervised under different legislations, including commercial banks; development finance institutions such as the Agricultural Finance Corporation (AFC) and the Kenya Post Office Savings Bank (KPOSB); deposit-taking microfinance

institutions and several non-deposit-taking microfinance institutions. A wide range of financial services are provided by the micro finances institutions ranging from savings and credit facilities, money transfer and micro insurance to the economically active poor low income households and small scale enterprises in both rural and urban areas.

Microfinance institutions (MFIs) in Kenya serve over 3 million clients, with women making up more than 60% of borrowers, highlighting a focus on empowering female entrepreneurs. The loan portfolio has grown to over KES 100 billion, with interest rates ranging from 10% to 30% per annum, depending on the institution and borrower risk. Many MFIs report profitability, with return on assets (ROA) and return on equity (ROE) metrics varying among institutions. However, the average non-performing loan (NPL) ratio is concerning, typically between 5% and 10%, indicating potential loan recovery issues. Successful MFIs often achieve recovery rates above 90%. The Kenyan government supports microfinance growth through policies like the Microfinance Act of 2006, which provides a legal framework for the sector.

## **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. Between 2016 to 2019 out of 13 licensed institutions, only two did not make any losses according to CBK report of 2019. Therefore, these institutions need to adopt

appropriate strategies that respond to the needs of the market by managing threats and exploiting emerging opportunities promptly for better performance.

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 Objectives of the Study**

This section addresses the general and specific objectives of the study;

### **1.3.1 General Objective**

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.

### **1.3.2 Specific Objectives**

The study specific objectives were;

- i. To examine the influence of strategic planning on the performance of microfinance institutions in Nairobi City County, Kenya.
- ii. To establish the influence of product design on the performance of microfinance institutions in Nairobi City County, Kenya.
- iii. To establish the influence of training and development on the on performance of microfinance institutions in Nairobi City County, Kenya.
- iv. To establish the influence of restructuring on the on the performance of microfinance institutions in Nairobi City County, Kenya.

### **1.4 Research Questions**

The study research questions were as follows;

- i. What is the influence of strategic planning on the performance of microfinance institutions in Nairobi City County, Kenya?
- ii. How does product design influence the performance of microfinance institutions in Nairobi City County, Kenya?
- iii. To what extent does training and development influence the performance of microfinance institutions in Nairobi City County, Kenya?
- iv. What is the relationship between restructuring and the performance of microfinance institutions in Nairobi City County, Kenya?

### **1.5 Significance of the Study**

The findings of this study would benefit the Micro finance Institutions in Kenya as they would gain insights into effective strategies to enhance operational performance, financial sustainability, and customer satisfaction, allowing them to better meet client needs. The Government officials could use the findings to create policies that support the microfinance sector's growth, promote best practices, and ensure consumer protection. Investors and Donors would learn which strategic approaches yield the best returns, enabling informed funding decisions that support sustainable development. To clients and borrowers, improved strategies will lead to better services and loan products, enhancing financial inclusion and empowerment for individuals and small businesses. Scholars and researchers in the field of microfinance and development studies will find the research findings useful for further academic inquiry. The insights gained can contribute to the existing body of knowledge, inspire future studies, and provide a basis for comparative analyses with other regions or sectors.

### **1.6 Scope of the Study**

This study was carried out in 13 micro finance institutions in Nairobi City County, Kenya as listed in appendix III. Strategy response was measured in terms of strategic planning, product design, training and development and restructuring. The respondents were employees working with the Micro finance institutions. Data was collected using questionnaire. This study employed a descriptive research design. The study sample was determined by using stratified sampling method and selection of the respondents was done using simple random sampling method. Theories that guided the study included; resource based view, institutional theory, structural contingency theory, Ansoff's matrix and human capital theory. The study collected qualitative data

and quantitative data. Performance of the micro finance institutions in Nairobi City County, Kenya was assessed for the last 5 years (2018 – 2022) because the evaluation period coincides with significant economic changes and challenges, including the impact of the COVID-19 pandemic, which has affected livelihoods and business operations.

### **1.7 Limitations of the Study**

The study could be limited by fear of respondents to disclose relevant information for the study. However, this was mitigated by assuring the respondents of strict confidentiality of any information disclosed. Some managers could decline to disclose sensitive information regarding response strategy adoption and implementation process due to competition and confidentiality concerns. However, this challenge could be mitigated through the use of a letter of introduction from Kenyatta University and the research permit from the National Council of Science, Technology and Innovation (NACOSTI) confirming that the information being sought is purely for academic reasons and providing assurance of upholding confidentiality.

### **1.8 Organization of the Study**

This project comprises of five chapters. Chapter one presents the background to the study, research problem, objectives of the study, purpose of the study, research questions, significance of the study, scope of the study, limitation of the study and assumptions of the study. Chapter two will present the theoretical review, empirical review, conceptual framework, knowledge gaps and summary of the literature review. Chapter three will highlight the research methodology including research design, target population, sampling and sample size, research instruments, pilot study, data collection techniques, method of data analysis and ethical issues. Chapter four

presents the research findings and discussions. Chapter five presents the summary of findings, conclusions, recommendations and suggestions for further studies.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter covers theoretical literature review, empirical literature review, summary of literature and gaps and conceptual framework.

### **2.2 Theoretical Literature Review**

This section addresses theories that are used to guide the study as per the specific objectives. They are presented as follows: Resource based view, institutional theory, structural contingency theory, ansoff's matrix and human capital theory.

#### **2.2.1 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 by developing 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 decision 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 MFIs can tailor their strategic responses to better meet the needs of their clients and navigate the competitive landscape by identifying and leveraging these resources. The RBV theory suggests that MFIs that can effectively mobilize their unique resources in response to these challenges are more likely to enhance their performance. The RBV encourages MFIs to not only focus on their existing resources but also to invest in developing new capabilities. This could involve adopting new technologies, exploring partnerships with fintech companies, or diversifying service offerings.

### **2.2.2 Institutional 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 the MFIs can better understand how these factors affect the strategic choices made, such as product offerings, client engagement strategies, and risk management practices. This theory is used to explain strategic planning variable. MFIs can effectively position themselves within the institutional landscape. In Nairobi, MFIs face various challenges, including economic fluctuations, technological advancements, and shifts in regulatory policies. Understanding how MFIs strategically respond to these changes, whether through diversification of services, investment in technology, or partnerships with other organizations can provide insights into their resilience and long-term performance.

### **2.2.3 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 MFIs can tailor their services, such as microloans, savings products, and financial education programs, to enhance their relevance and effectiveness. Structural contingency theory suggests that there is no one-size-fits-all approach; instead, MFIs must develop strategies that fit their unique circumstances. For instance, an MFI may choose to diversify its product offerings in response to increased competition or to focus on niche markets that are underserved. The ability to pivot and adapt strategies based on situational analysis can significantly impact performance outcomes. This theory is used to explain restructuring variable.

#### **2.2.4 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 because Ansoff's matrix highlights the importance of product development, which is vital for MFIs to meet the evolving needs of their clients. In Nairobi, this could mean introducing new financial products, such as savings accounts, insurance services, or digital lending platforms. By innovating and adapting their offerings, MFIs can attract new clients and retain existing ones, ultimately leading to improved performance and profitability.. This theory is used to explain product design variable.

### **2.2.5 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. MFIs that recognize the importance of human capital are likely to invest in strategic recruitment and training programs. By hiring individuals with the right skills and providing ongoing training, these institutions can enhance their workforce's capabilities. This investment not only improves employee performance but also fosters a culture of continuous learning and adaptation, which is essential in a dynamic market like Nairobi. This theory is used to explain training and development variable.

## **2.3 Empirical Literature Review**

This section addresses a review of past studies related to the study variables. These are discussed as follows:

### **2.3.1 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. Field 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 (43) MFIs located in Nairobi. Structured questionnaires were used for data collection. The study revealed that strategic planning had a bearing on the performance of MFIs in Kenya. However, the study focused on performance of MFIs between 2012 to 2014 thus presenting a contextual gap.

Njoroge (2018) examine the effects of strategic planning on organizational performance: A case of event planning firms in Nairobi CBD. The descriptive design was used because it ensured complete description of the situation. The target population of interest in this study comprised of event planning firms in Nairobi CBD. The sample size for the study was selected from the event planning firms in Nairobi's CBD. The study adopted non-probability purposive sampling method to arrive at the participating event planning firms. The findings strongly acknowledged that strategic planning is the foundation that improves the business processes and ultimately

reduces the internal costs of operation. However, the study presents a contextual gap since it examined event planning firms in Nairobi CBD.

### **2.3.2 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.

Roble and Wanjira (2021) investigated the effects of product design on performance of commercial banks in Garissa County, Kenya. The population for this study was four commercial banks namely: Kenya Commercial Bank, Equity Bank, Cooperative Bank and National Bank in Garissa County, Kenya. The respondents were managers in top, middle and low level management employees. A census of 82 respondents was carried out. Primary data was collected using a structured questionnaire. Quantitative data was analyzed using descriptive statistics. The study further carried out multiple regressions to determine the effect between variables. The study found that product design had a positive and significant effect on the performance. However, the study context was commercial banks in Garissa County, Kenya.

### **2.3.3 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.

Amadi (2019) investigated the effect of training and development on employees' performance; at Safaricom limited call center. The study adopted a case study approach where data was collected across a population through sampling of 340 employees at the Call Center which forms the Customer Care Division of Safaricom. The sample included managers, support/analyst and customer experience executives. Primary data was collected by use of both structured and unstructured questions across the strata and secondary data was gathered from various sources such as the Safaricom Strategic Plan 2012, Employee Booklet and Call Center Performance

Reports. Responses were analyzed using both descriptive and graphical techniques. It was observed that training and development has a positive impact on both motivations of employees as well as performance. However, study context was Safaricom limited call center.

#### **2.3.4 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.

Notanubun, Ririhena and Batlolona (2019) investigated the effect of organization restructuring on organization performance viewed from employee performance and leadership effectiveness at Maluku provincial education office. The focus of this research is to comprehensively analyze the effect of organization restructuring on the performance of the organization, directly or indirectly, involving 276 employees in the education office and the Ministry of Education and Culture offices and collected by survey method. Data analysis was done using causal correlation technique to see the effect of organization restructuring on organization performance. The results of the research indicate that there is a direct influence of organization restructuring on organization performance. Another result is that there is an indirect effect of restructuring through employee performance and leadership effectiveness on organization performance. However, the study presents a methodological gap since it employed a causal correlation technique.

## 2.4 Summary of Literature Reviewed and Research Gaps

**Table 2.1: Summary of Literature Reviewed and Research Gaps**

Name	Study title	Findings	Gaps	Focus of current study
Wun (2019)	Strategic planning on organizational performance of Microfinance Institution in Myanmar	Strategic planning had a significant changes in profitability level of MFIs.	The study context was Microfinance Institution in Myanmar	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Nyanaro and Bett (2018)	Strategic planning on performance of commercial banks in Kenya	Strategic planning represents a crystallized vision of commercial banks aspired direction of growth	The study was a case of Barclays Bank of Kenya	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Odongo, Anyango and Rotich (2016)	Role of strategic planning on the performance of microfinance institutions in Kenya	Strategic planning had a bearing on the performance of MFIs in Kenya	The study focused on performance of MFIs between 2012 to 2014	The study focused on performance of MFIs between 2018 to 2012
Nadupoi, Patrick and	Effect of product design on growth of	Product innovation had a significant	The study used cross-sectional	The study used descriptive

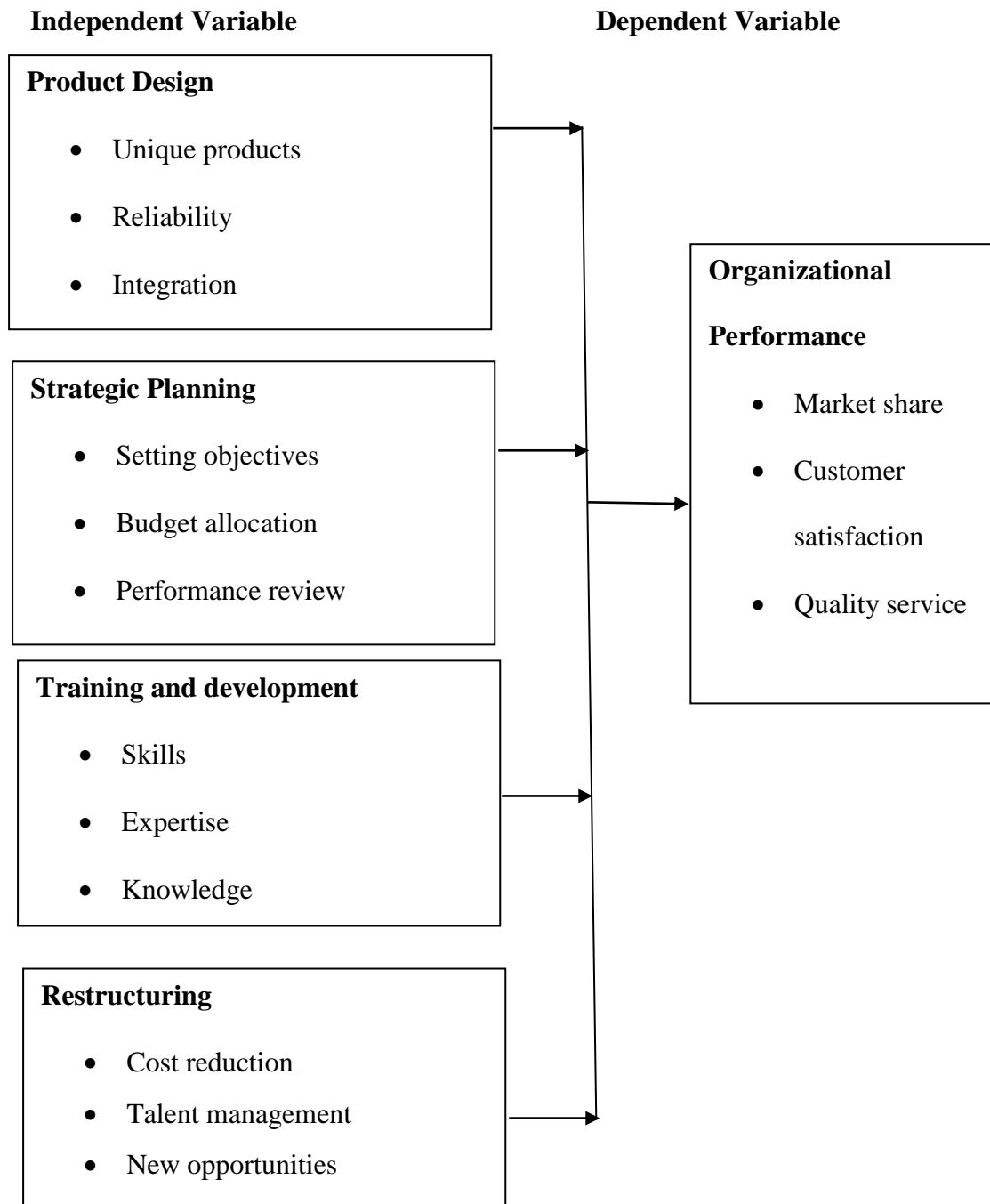
Diana (2022)	Microfinance Institutions in Narok Town	positive association to growth of MFIs	design.	research design
Fong, Lo and Ramayah (2019)	New product design and performance in the banking industry	Four types of new product development factors, namely, firm image, brand strength, product innovativeness and new product quality were found to be positively related to organizational performance	The study used simple random sampling which is limited to accessing a sample that is representative of the whole population	The used a census method
Kamakia (2018)	Product design on performance of commercial banks in Kenya	Product design positively impacts performance of commercial banks and that the reputation in the market makes the bank stand out	The study focused on commercial banks	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Naqvi and Khan (2016)	Influence of employees training on organizational performance	Employee skill, knowledge and ability gained from training has	The study focused on microfinance bank sub-sector performance	The study focused on the performance of microfinance

		significant effect on productivity	between the year 2012 to 2015	institutions in Nairobi City County, Kenya
Butali and Njoroge (2017)	Influence of training and development on organizational performance	Training and development had a significant effect on organizational performance	The study focused on the performance of manufacturing companies	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Ali and Ngui (2019)	Effect of employee training on organizational performance in the building and construction sector in Kenya	There is significant relationship between employee training and organizational performance	The study was a case of tile and carpet centre	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Odula (2015)	Restructuring on the performance of financial institutions in Kenya	Restructuring had a positive impact on performance of financial institutions in Kenya	The study focused on Commercial Banks in Kenya	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya
Mutuku (2020)	Debt restructuring strategies and the level of non-	Debt rescheduling and interest rate reductions were	The study did not focus on non-financial aspects of	The study focused on non-financial aspects of MFIs

	performing loans in microfinance institutions in Nairobi County	found to have a statistical significant influence on NPLs	the MFIs	
Mwangi and Maina (2021)	The influence of organization restructuring on the performance of Commercial Banks in Mombasa County, Kenya	Banks had adopted various restructuring strategies over the recent past where the organizational restructuring parameters that were adopted to a great extent	The study focused on the performance of Commercial Banks in Mombasa County, Kenya	The study focused on the performance of microfinance institutions in Nairobi City County, Kenya

**Source: Researcher (2024)**

## 2.5 Conceptual Framework



**Figure 2.1: Conceptual Framework**

Source: Researcher (2024)

Figure 2.1 describes how independent variables and dependent variable relate to each other. The independent variables are strategic planning, product design, training and development and restructuring. The dependent variable is the organizational performance.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter comprises research design, target population, sampling procedure and sample size, data collection instruments, validity and reliability of research instruments, data collection procedure, data analysis method and ethical consideration.

### **3.2 Research Design**

This study employed a descriptive research design. According to Dulock (2014) descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way. 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.

### **3.3 Target Population**

Target population is the total group of individuals from which the sample might be drawn (Ayala & Elder, 2019). 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 as described in Table 3.1.

**Table 3.1: Target Population**

<b>Institution</b>	<b>Population</b>	<b>Percentage</b>
Caritas Microfinance institutions Limited	64	7.7
Century Microfinance institutions Limited	78	9.4
Choice Microfinance institutions Limited	91	10.9
Daraja Microfinance institutions Limited	54	6.5
Faulu Microfinance institutions Limited	88	10.6
Kenya Women Microfinance institutions Limited	54	6.5
Maisha Microfinance institutions Ltd	39	4.7
Rafiki Microfinance institutions Limited	60	7.2
Remu Microfinance institutions Limited	57	6.8
SMEP Microfinance institutions Limited	70	8.4
Sumac Microfinance institutions Limited	62	7.4
U & I Microfinance institutions Limited	47	5.6
Uwezo Microfinance institutions Limited	69	8.3
<b>Total</b>	<b>833</b>	<b>100</b>

**Source: CBK Report (2024)**

### **3.3.1 Sampling Design and Sample Size**

Sampling design allows collection and analysis of data for a smaller portion of the population which must be a representative of the entire population and then apply the

results to the whole population (Glasow, 2015). 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:

$$n = \frac{N}{1 + N(e)^2} = \frac{833}{1 + 833(0.05)^2} = 270$$

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 as shown in Table 3.2.

**Table 3.2: Sample Size**

<b>Institution</b>	<b>Population</b>	<b>Sampling factor</b>	<b>Sample size</b>
Caritas Microfinance institutions Limited	64	0.324	21
Century Microfinance institutions Limited	78	0.324	25
Choice Microfinance institutions Limited	91	0.324	29
Daraja Microfinance institutions Limited	54	0.324	17
Faulu Microfinance institutions Limited	88	0.324	29
Kenya Women Microfinance institutions Limited	54	0.324	17
Maisha Microfinance institutions Ltd	39	0.324	13
Rafiki Microfinance institutions Limited	60	0.324	19
Remu Microfinance institutions Limited	57	0.324	19
SMEP Microfinance institutions Limited	70	0.324	23
Sumac Microfinance institutions Limited	62	0.324	20
U & I Microfinance institutions Limited	47	0.324	15
Uwezo Microfinance institutions Limited	69	0.324	23
<b>Total</b>	<b>833</b>	<b>0.324</b>	<b>270</b>

**Source: CBK Report (2024)**

### **3.4 Data Collection Instrument**

The study used primary data that was collected using questionnaires. The questionnaires were structured into five sections ranging from A to F whereby section A collected data regarding the respondents background information, section B was based on strategic planning variable, section C product variable, section D training and development variable, section E restructuring variable and section F collected data on organizational performance. The questions followed a likert scale whereby the respondents were required to rate questions as per their level of agreement.

### **3.5 Pilot Study**

Pilot study is a small test to assist the researcher in checking for the quality of the questionnaires and identify any weaknesses before going for the final data collection process (Orodho, 2005). According to Mugenda and Mugenda (2003), a pilot study with a sample of a tenth of the total sample with homogenous characteristics is appropriate for the pilot study. Pilot testing is an important step in research process

because it reveals vague questions and unclear instructions in the instruments. It also captures important comments and suggestions from the respondents that enable the researcher to improve on the efficiency of research instrument. Therefore, questionnaires were piloted to 27 respondents working with momentum credit limited in Nairobi County, Kenya.

### **3.5.1 Validity of Research Instruments**

Validity is the degree to which the instrument measures the constructs under investigation. Validity was tested using the three types of validity tests; content, criterion and construct validity. Content validity refers to the extent to which the items on a test are fairly representative of the entire domain the test seeks to measure (Lynn, 2016). Therefore, content validity was evaluated by involving the supervisor as the research expert to rate the questionnaire items based on their relevance and representativeness to the content domain. Criterion validity measures how well one measure predicts an outcome for another measure. In this regard, criterion validity was used to assess whether a test reflects a certain set of abilities. Construct validity involves the assessment of the degree to which a measure correctly measures its targeted variable. Therefore, evaluation of construct validity required that the correlations of the measure be examined in regard to variables that are known to be related to the construct.

### **3.5.2 Reliability of Research Instruments**

Muslihin, Suryana, Suherman and Dahlan (2022) observe that the fundamental element and purpose of reliability was to estimate the consistency of measurement. Consistency implies the degree to which an instrument measures the same way each time when same subjects are treated under different conditions using same procedures. Cronbach's alpha reliability coefficient was used to test the reliability of

the questionnaire. Sarmah and Hazarika (2012) indicated that a reliable instrument of data collection should have alpha value greater than or equal to 0.70. Therefore, this study targeted an alpha value of 0.70 and more. The results of reliability tests are presented in Table 3.3.

**Table 3.3: Results of Reliability Tests**

<b>Variable</b>	<b>Alpha Value</b>	<b>Conclusion</b>
Strategic planning	0.751	Reliable
Product design	0.815	Reliable
Training and development	0.779	Reliable
Restructuring	0.805	Reliable
Organizational Performance	0.811	Reliable
<b>Aggregate score</b>	<b>0.792</b>	<b>Reliable</b>

Source: Pilot Study (2024)

The result from as provided in Table 3.3 shows that the alpha value for the variables ranged from 0.751 to 0.815 which was way above 0.7. In addition, the study achieved an aggregate reliability score of 0.792. The average alpha coefficient for every individual variable was way above 0.788 which satisfies the recommendation made by Mugenda and Mugenda (2003) that an alpha coefficient score of above 0.7 shows that the instruments are highly reliable.

### **3.6 Data Collection Procedure**

Kenyatta University graduate school provided an authorization to conduct this study by issuing approval letter. The necessary clearance was also sought from the National Commission for Science and Technology (NACOSTI). 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.

### **3.7 Data Analysis and Presentation**

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 20.0. The study further carried out inferential statistics that included correlation analysis and multiple regressions to determine the relationship between variables. The regression equation followed the following form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Whereby Y= Organizational performance

X<sub>1</sub>= Strategic planning

X<sub>2</sub>= Product design

X<sub>3</sub>= Training and development

X<sub>4</sub> = Restructuring

β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub> and β<sub>4</sub> are coefficients of determination

ε is the error term

### **3.8 Ethical Consideration**

Appropriate approvals to carry out the research in the MFIs were sought from both the management of these institutions and Kenyatta University (KU) before the research commenced. A research permit was also obtained from the National Commission for

Science, Technology and Innovation (NACOSTI) to ensure compliance with all legal requirements for conducting research in Kenya. Prior to data collection, respondents were informed that their participation was voluntary, with no direct benefits or losses if they chose not to participate, and they were free to withdraw from the study at any point. Confidentiality was emphasized, and all information provided was guaranteed to be used solely for academic purposes without being shared with third parties. Care was taken during the design of the questionnaire to avoid offensive or sensitive personal questions, and respondents were informed in advance to minimize any inconvenience. The nature and purpose of the study were clearly explained, with assurances that there were no financial incentives for participation, and the anonymity of all participants was protected throughout the research process.

## CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This chapter primarily presents the findings drawn from the data collected from the field. Results are presented in terms of response rate, demographic data of the respondents, descriptive statistics and multiple regression analysis. The findings are also discussion with the support of literature reviewed.

### 4.2 Response Rate

The result of response rate based on a sample size of 270 respondents is presented in Table 4.1.

**Table 4.1: Response Rate**

Category	Frequencies	Percentage
Questionnaire returned	262	97.1
Questionnaires not returned	8	2.9
<b>Total</b>	<b>270</b>	<b>100</b>

**Source: Survey Data (2024)**

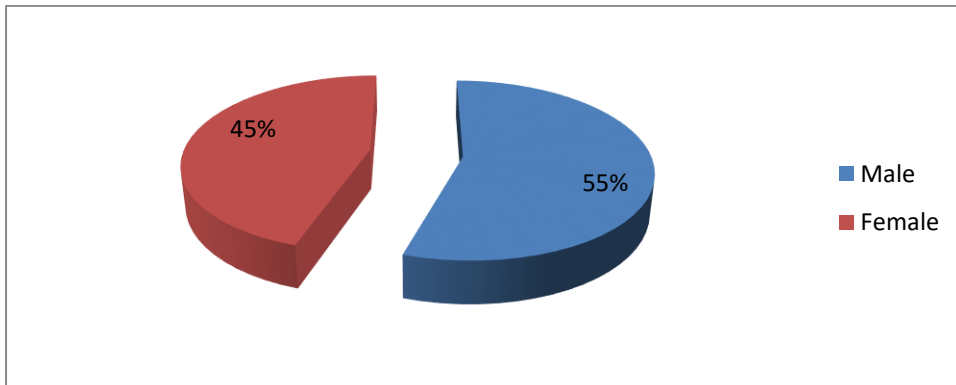
The results presented in Table 4.1 show that the study achieved an overall response rate of 97.2% and a non-response rate of 2.9%. A response rate of 80% or higher, according to Baruch and Holtom (2014), is sufficient for data analysis. As a result, a study response rate of 97.1% was deemed appropriate for data analysis. The high response rate of the study led to acceptance and credibility of the research findings.

### 4.3 Respondents' Demographic Data

The demographic information of the participants was examined according to their gender, age group, educational background, and professional experience. The findings obtained are outlined below.

### 4.3.1 Respondents' Gender

The result of gender distribution of the respondents is presented in Figure 4.1.



**Figure 4.1: Respondents' Gender**

**Source: Survey Data (2024)**

The results presented in Figure 4.1 show that the male respondents accounted for 55.0% and female respondents 45.0%. The participants' gender was taken into account to ensure a balanced representation of both males and females. This allowed for a more comprehensive analysis of any potential gender-related differences or similarities in the study's findings.

### 4.3.2 Respondents' Age Bracket

The result of gender distribution of the respondents is presented in Table 4.2.

**Table 4.2: Respondents' Age Bracket**

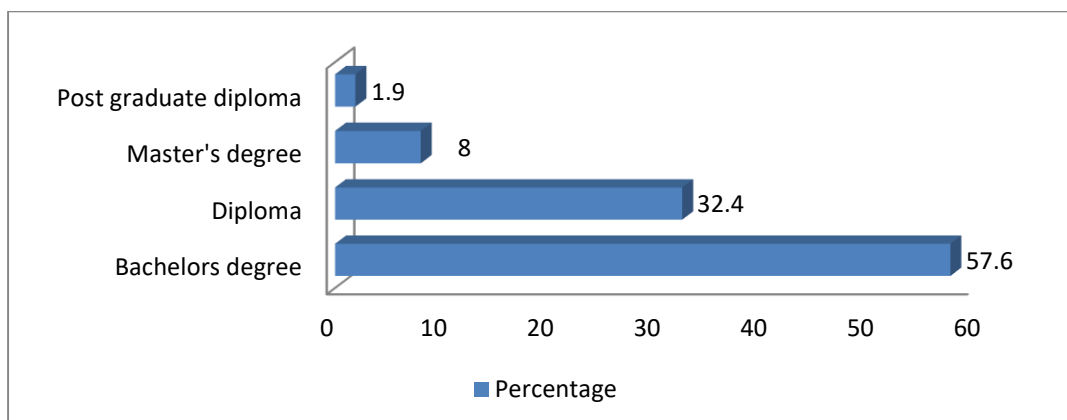
Age bracket	Frequencies	Percentages
Less than 29 years	25	9.5
29 to 39 years	134	51.1
40 to 49 years	93	35.5
50 and above	10	3.8
<b>Total</b>	<b>262</b>	<b>100</b>

**Source: Survey Data (2024)**

The results presented in Table 4.2 show that the respondents whose age bracket ranged between 29 to 39 years accounted as majority at 51.1%. Those whose age bracket ranged between 40 to 49 years were represented by 35.5%, 9.5% represented the respondents aged less than 29 years and 3.8% 50 years and above. This shows a good distribution of respondents in terms of age gaps. The participants were divided into different age groups to explore potential variations across different generations. This segmentation enabled researchers to identify any age-related patterns or trends that may have influenced the study's outcomes.

### 4.3.3 Respondents' Highest Level of Education

The result of distribution of the highest distribution of the respondents is presented in Figure 4.2.



**Figure 4.2: Respondents' Highest Level of Education**

**Source: Survey Data (2024)**

The results presented in Figure 4.2 show that the majority (57.6%) of the respondents had achieved a highest level of education as bachelors degree level, 32.4% diploma level, 8% master’s degree and 1.9% post graduate diploma level. This shows that the educational background of the participants was carefully considered. Therefore, the study could be able to assess the potential impact of education on the study's results and draw conclusions accordingly.

#### 4.3.4 Respondents’ Work Experience

The result of distribution of the work experience of the respondents is presented in Table 4.3.

**Table 4.3: Respondents’ Work Experience**

<b>Work experience</b>	<b>Frequencies</b>	<b>Percentages</b>
Less than 5 years	17	6.4
5 to 9 years	99	37.8
10 to 15 years	84	32.1
Above 15 years	62	23.7
<b>Total</b>	<b>262</b>	<b>100</b>

**Source: Survey Data (2024)**

The results presented in Table 4.3 show that the respondents with work experience ranging between 5 to 9 years were majority as represented by 37.8%, 32.1% representing those respondents with a work experience ranging between 10 years to 15 years, 23.7% above 15 years and 6.4% less than 5 years. This shows that the participants' professional experience was taken into account. Therefore, the study could explore any potential correlations between professional experience and the study's outcomes, providing valuable insights into the influence of work experience on the organizational performance.

#### **4.4 Results of Descriptive Statistics Analysis**

The study analysed quantitative data using descriptive statistics such Mean (M) and Standard Deviation (SD). The results are presented as per the study specific variables as follows;

##### **4.4.1 Strategic Planning**

The respondents were given a list of statements describing the influence of strategic planning on the performance of microfinance institutions in Nairobi City County, Kenya to indicate their level of agreement based on a 5-point likert scale (Strongly agree (SA), Agree(A), Undecided (U), Disagree (D), and Strongly, Disagree (SD). The results are presented as follows;

**Table 4.4: Strategic Planning**

<b>Statements</b>	<b>SD (%)</b>	<b>D(%)</b>	<b>N(%)</b>	<b>A(%)</b>	<b>SA(%)</b>	<b>M</b>	<b>SD</b>
Setting of objecting enables the managers communicate to employees what type of goals to set to support the institution's growth.	4.6	15.6	1.9	37.8	40.1	3.99	1.010
Setting of goals enables the managers of microfinance institutions clarify to employees how they can achieve the institution's goals	0.1	5.7	0.0	62.2	31.3	4.56	0.439
Budget allocation helps the organizations formulate their activities allowing it to better understand priorities	4.6	9.9	0.0	43.9	41.6	4.11	0.889
Budget allocation allows that organization to figure out how resources can be allocated and which areas need to be reevaluated.	5.7	4.2	1.5	39.7	48.9	3.85	1.146
Setting of priorities has helped employees to take control of their time to meet important deadlines	0.0	0.0	0.0	44.7	55.3	4.61	0.399
Setting of priorities has enabled optimal allocation of resources to strategic issues within the micro finance institutions	1.5	7.3	3.8	48.5	42.4	3.67	1.329
<b>Aggregate score</b>						<b>4.13</b>	<b>0.87</b>

**Source: Survey Data (2024)**

The results in Table indicate that most (77.9%) of the respondents agreed that setting of objecting enables the managers communicate to employees what type of goals to set to support the institution's growth. The study revealed that setting of goals enables

the managers of microfinance institutions clarify to employees how they can achieve the institution's goals as agreed by most (93.5%) of the respondents. Most (85.5%) of the respondents agreed that budget allocation helps the organizations formulate their activities allowing it to better understand priorities. The statement that budget allocation allows that organization to figure out how resources can be allocated and which areas need to be reevaluated was agreed by most (88.6%) of the respondents. All the respondents agreed that setting of priorities has helped employees to take control of their time to meet important deadlines and the study also revealed that setting of priorities has enabled optimal allocation of resources to strategic issues within the micro finance institutions as agreed by majority (90.9%) of the respondents. In addition, these statements were agreed by most of the respondents as indicated by an aggregate mean score of 4.13 and standard deviation of 0.87 based on a 5-point likert scale.

The finding agree with Sila and Ebrahimpour (2015) who observe that strategic planning is a method for establishing the company's specific long-term goals, processes for developing and reviewing various options and a mechanism for tracking program outcomes while operating. The finding also concur with Glen and Weerawardena (2017) who observe that Strategic planning enhances organisation's efficiency through streamlining processes, improving time management and maximizing capital effectively. Strategic planning therefore requires the use of the relevant information to determine whether certain strategic activities can be optimized.

#### **4.4.2 Product Design**

The respondents were given a list of statements describing the influence of product design on the performance of microfinance institutions in Nairobi City County, Kenya

to indicate their level of agreement based on a 5-point likert scale (Strongly agree (SA), Agree(A), Undecided (U), Disagree (D), and Strongly, Disagree (SD). The results are presented as follows;

**Table 4.5: Product Design**

Statements	SD (%)	D(%)	N(%)	A(%)	SA(%)	M	SD
The uniqueness of micro finance institution products have enabled them to stand out in the financial market	2.6	1.1	0.0	41.9	56.5	4.09	1.909
The uniqueness of micro finance institution products have enabled them to charge premium prices	0.0	0.0	0.9	48.3	50.8	3.97	1.029
Effective product design has enabled the micro finance institutions to boost customer loyalty	1.8	3.8	0.0	38.5	55.9	4.51	0.490
Effective product design has enabled the micro finance institutions to reduce customer complaints	0.0	0.0	0.7	39.2	60.1	4.66	0.339
The organizations have integrated the design to enhance product development while lowering cost and improving quality.	0.0	7.9	1.5	45.6	39.4	3.67	1.328
The integration of design has led to a tremendous impact on improving productivity and eliminating various product challenges.	0.9	2.8	0.0	49.1	48.8	4.47	0.528
<b>Aggregate score</b>						<b>4.23</b>	<b>0.94</b>

**Source: Survey Data (2024)**

The results as presented in Table 4.5 indicate that majority (98.4%) of the respondents agreed that the uniqueness of micro finance institution products have enabled them to stand out in the financial market. The study found that most (99.1%) of the respondents agreed that the uniqueness of micro finance institution products have enabled them to charge premium prices. The statement that effective product design has enabled the micro finance institutions to boost customer loyalty was agreed by most (94.4%) of the respondents. 99.3% of the respondents agreed that effective product design has enabled the micro finance institutions to reduce customer complaints. The study revealed that majority (85.0%) of the respondents agreed that the organizations have integrated the design to enhance product development while lowering cost and improving quality. The study examined that majority (97.9%) of the respondents agreed that the integration of design has led to a tremendous impact on improving productivity and eliminating various product challenges. The study further found that these statements were agreed by most of the respondents as indicated by an aggregate mean score of 4.23 with a standard deviation of 0.94 based on a 5 point likert scale.

The finding agree with Langerak, Hultink and Robben (2017) who observe that product design is a key strategic practice in many companies as new products make a significant contribution to sales revenue and if companies may create unique products, they have the option of commanding premium prices. The finding also agree with Adams, Day and Dougherty (2020) who observe that product design is a key factor in increasing the organization as it defines the qualities, functionality and efficiency of the service or product that customers need. Therefore, the goal of product design is to build good or service of outstanding practical functionality and revenues at an acceptable cost and within a reasonable period of time.

#### **4.4.3 Training and Development**

The respondents were given a list of statements describing the influence of training and development on the performance of microfinance institutions in Nairobi City County, Kenya to indicate their level of agreement based on a 5-point likert scale (Strongly agree (SA), Agree(A), Undecided (U), Disagree (D), and Strongly, Disagree (SD). The results are presented as follows;

**Table 4.6: Training and Development**

<b>Statements</b>	<b>SD (%)</b>	<b>D(%)</b>	<b>N(%)</b>	<b>A(%)</b>	<b>SA(%)</b>	<b>M</b>	<b>SD</b>
Training and development programs have enabled the micro finance institutions to improve their employee engagement as feel valued and appreciated.	0.0	3.7	0.0	36.7	52.7	4.08	0.899
Employees are better able to do their work efficiently and well because they are prepared with the right skills and knowledge	0.0	0.0	0.0	41.5	58.5	4.51	0.487
The micro finance institutions offers regular training and development opportunities that has increased the uniformity of work processes	0.0	0.0	2.1	34.5	55.6	3.78	1.219
Training and development programs have enabled the micro finance institutions to builds future leaders by providing the education necessary for growth.	0.0	4.2	0.0	37.4	58.9	4.49	0.507
Trained and developed employees have increased efficiency and within the micro finance institutions	2.9	4.8	0.0	45.8	48.6	4.57	0.428
Employee training and professional development has encouraged a positive culture which has increase the morale of employees	0.0	0.0	0.0	50.8	48.6	4.55	0.448
<b>Aggregate score</b>						<b>4.33</b>	<b>0.665</b>

**Source: Survey Data (2024)**

The results as presented in Table 4.6 indicate that majority (89.4%) of the respondents agreed on the statement that training and development programs have enabled the micro finance institutions to improve their employee engagement as feel valued and appreciated. All the respondents agreed that employees are better able to do their work efficiently and well because they are prepared with the right skills and knowledge. 90.1% of the respondents agreed on the statements that the micro finance institutions offers regular training and development opportunities that has increased the uniformity of work processes. According to the findings in table 4.6, most (96.3%) of the respondents agreed that training and development programs have enabled the micro finance institutions to builds future leaders by providing the education necessary for growth. 94.4% of the respondents agreed that trained and developed employees have increased efficiency and within the micro finance institutions and all the respondents agreed that employee training and professional development has encouraged a positive culture which has increase the morale of employees. Based on a 5-point likert scale, the respondents were in agreement with these statements as indicated by an aggregate mean score of 4.33 and standard deviation of 0.665.

The finding is consistent with Russell, Terborg and Powers (2018) who observe that employee training is one of the vital tools that help to enhance effective organizational performance and at the same time helps to promote the stability index of the organization and it is very crucial for the organization to exert extra efforts and invest much in employee training if it wants to achieve its objectives in the most economical way. The finding is also consistent with Khan, Khan and Khan (2019) observation that effective training programs help in building a supportive and

conducive learning environment to the workforce and at the same time help them to deal effectively with foreseeable challenges easily and in time.

#### **4.4.4 Restructuring**

The respondents were given a list of statements describing the influence of restructuring on the performance of microfinance institutions in Nairobi City County, Kenya to indicate their level of agreement based on a 5-point likert scale (Strongly agree (SA), Agree(A), Undecided (U), Disagree (D), and Strongly, Disagree (SD). The results are presented as follows;

**Table 4.7: Restructuring**

<b>Statements</b>	<b>SD (%)</b>	<b>D(%)</b>	<b>N(%)</b>	<b>A(%)</b>	<b>SA(%)</b>	<b>M</b>	<b>SD</b>
The micro finance institutions have reduced their overhead expenses	0.0	1.8	0.0	38.4	40.8	4.07	0.899
Through cost reduction, the MFIs have improved quality and service levels while still maintaining or improving bottom-line results.	0.0	0.0	0.0	45.0	55.0	4.62	0.378
A talent management system helps with succession planning by using data to visualize bench strength, map skills to open positions and identify areas where needs will surface	0.0	0.0	0.0	37.2	52.7	4.49	0.509
Talent management systems help collect and make it easy to track and analyze data that will point to causes of attrition	0.0	5.7	0.0	56.8	43.1	4.28	0.719
Restructuring enables the organization to earn new investment	0.0	0.0	9.1	33.4	51.6	3.58	1.418
Restructuring often gets rid of non-essential layers in the management chain which opens up the lines of communication allowing for increased efficiency	0.0	10.5	0.0	35.8	42.6	4.32	0.678
<b>Aggregate score</b>						<b>4.23</b>	<b>0.767</b>

**Source: Survey Data (2024)**

The results as presented in Table 4.7 indicate that majority (79.2%) of the respondents agreed on the statement that the micro finance institutions have reduced their overhead expenses. The statements that through cost reduction, the MFIs have

improved quality and service levels while still maintaining or improving bottom-line results and a talent management system helps with succession planning by using data to visualize bench strength, map skills to open positions and identify areas where needs will surface were agreed by all the respondents. The study found that majority (99.9%) agreed that talent management systems help collect and make it easy to track and analyze data that will point to causes of attrition. 85.0% of the respondents agreed that restructuring enables the organization to earn new investment and 78.4% of the respondents agreed that restructuring often gets rid of non-essential layers in the management chain which opens up the lines of communication allowing for increased efficiency. The aggregate mean score of 4.23 indicate that the respondents agreed that agreed on these statements based on a 5-point likert scale.

The findings concur with Bartunek and Franzak (2018) who observe that restructuring is the act of changing the business model of an organization to transform it for the better. These changes can be legal, operational processes, ownership, etc. The cause of such a shift in the company can be either external or internal. The finding also agree with Useem (2020) who observe that organizational restructuring involves conducting an organizational assessment to identify areas of competence, improvement, and potential risks and applying the findings to inform strategic solutions.

#### **4.4.5 Organizational Performance**

The respondents were given a list of statements describing the performance of microfinance institutions in Nairobi City County, Kenya to indicate their level of agreement based on a 5-point likert scale (Strongly agree (SA), Agree(A), Undecided (U), Disagree (D), and Strongly, Disagree (SD)). The results are presented as follows;

**Table 4.8: Organizational Performance**

<b>Statements</b>	<b>SD</b> <b>(%)</b>	<b>D(%)</b>	<b>N(%)</b>	<b>A(%)</b>	<b>SA(%)</b>	<b>M</b>	<b>SD</b>
Strategic responses have enabled the micro finance institutions to expand its market share	0.0	2.4	0.0	41.6	52.4	4.56	0.439
Strategic responses have enabled the micro finance institutions to increase their efficiency	0.0	3.9	0.0	39.4	53.7	4.36	0.639
Strategic responses have enabled the micro finance institutions to offer products and services that satisfy the needs of their customers	0.0	0.0	2.1	47.6	48.3	4.78	0.218
<b>Aggregate score</b>						<b>4.57</b>	<b>0.432</b>

**Source: Survey Data (2024)**

The results in Table 4.8 indicate that majority (94.0%) of the respondents agreed that strategic responses have enabled the micro finance institutions to expand its market share. The statement that strategic responses have enabled the micro finance institutions to increase their efficiency was agreed by most (93.1%) and that most (95.9%) of the respondents agreed that strategic responses have enabled the micro finance institutions to offer products and services that satisfy the needs of their customers. The finding agree with Oliver (2019) who observe that 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. The finding also agree with Ketchen and Palmer (2019) who indicated that 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.

#### 4.5 Results of Multiple Linear Regressions

Regression analysis was done to estimate the relationship between dependent variable and independent variables. The results are presented in Table 4.9, 4.10 and 4.11.

**Table 4.9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 <sup>a</sup>	.630	.624	1.254

**Source: Survey Data (2024)**

The results in Table 4.9 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 4.10: 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 4.10 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 4.11: 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 4.11 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.

$$\text{Organizational performance} = 0.744 + 0.719(\text{strategic planning}) + 0.814(\text{product design}) + 0.773(\text{training and development}) + 0.699(\text{restructuring})$$

The study found that strategic planning had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya ( $\beta=0.587$ ,  $p=0.001$ ). 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 ( $\beta=0.125$ ,  $p=0.002$ ). 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 ( $\beta=0.671$ ,  $p=0.000$ ). 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 ( $\beta=0.557$ ,  $p=0.000$ ). 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.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This section presents the summary of the findings, conclusions, recommendations for policy and practice and further studies suggestion.

### **5.2 Summary of Findings**

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. The specific objectives were to examine the influence of strategic planning, product design, training and development and restructuring on the performance of microfinance institutions in Nairobi City County, Kenya. Data was collected using questionnaires. The analysis of data was done using descriptive analysis and multiple regression analysis method. The following is the summary of findings;

The first research objective sought to examine the influence of strategic planning on the performance of microfinance institutions in Nairobi City County, Kenya. The study found that strategic planning had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya. Setting of priorities has helped employees to take control of their time to meet important deadlines. Setting of goals enables the managers of microfinance institutions clarify to employees how they can achieve the institution's goals and budget allocation helps the organizations formulate their activities allowing it to better understand priorities.

The second research objective sought to establish the influence of product design on the performance of microfinance institutions in Nairobi City County, Kenya. The study revealed that product design had a positive and significant influence on the

performance of microfinance institutions in Nairobi City County, Kenya. Effective product design has enabled the micro finance institutions to reduce customer complaints. Effective product design has enabled the micro finance institutions to boost customer loyalty and the integration of design has led to a tremendous impact on improving productivity and eliminating various product challenges.

The third research objective sought to establish the influence of training and development on the on performance of microfinance institutions in Nairobi City County, Kenya. The study found that training and development had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya. Trained and developed employees have increased efficiency and within the micro finance institutions, employee training and professional development has encouraged a positive culture which has increase the morale of employees and employees are better able to do their work efficiently and well because they are prepared with the right skills and knowledge.

The fourth research objective sought to establish the influence of restructuring on the on the performance of microfinance institutions in Nairobi City County, Kenya. The study established that restructuring had a positive and significant influence on the performance of microfinance institutions in Nairobi City County, Kenya. Through cost reduction, the MFIs have improved quality and service levels while still maintaining or improving bottom-line results. A talent management system helps with succession planning by using data to visualize bench strength, map skills to open positions and identify areas where needs will surface and restructuring often gets rid of non-essential layers in the management chain which opens up the lines of communication allowing for increased efficiency.

### **5.3 Conclusions of the Study**

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.

#### **5.4 Recommendations of the Study**

The study recommends that organizational management dedicate significant time and effort to thoroughly map out the strategic planning process in order to boost the performance of microfinance institutions. Key steps in this process include identifying and consulting with essential stakeholders, determining the best methods and timing for their engagement, and securing the necessary resources to create a robust and actionable plan. Strategic planning should not be done in isolation, but rather involve diverse groups of stakeholders to ensure that the plan aligns with the priorities of those most impacted by the strategies. By staying informed about relevant work happening across the organization and integrating these efforts into the strategic plan, management can avoid duplicative efforts, streamline processes, and reduce unnecessary workloads for their colleagues. This comprehensive approach helps in setting a strong foundation for organizational growth and improved performance.

In terms of product design, the study emphasizes the need for organizational management to have a deep understanding of the specific problem their products are addressing and why their solutions stand out from the competition. A clear focus on the core value proposition will help management avoid distractions, such as adding unnecessary features, which can dilute the product's effectiveness. Following

established design principles like contrast, alignment, hierarchy, balance, consistency, and simplicity can greatly enhance usability, making the product intuitive and enjoyable for users. Moreover, product design teams can learn valuable lessons by studying successful products within their industry or even from unrelated fields to gain inspiration and adopt best practices. By refining their product designs through these methods, organizations can improve user satisfaction and ultimately drive better performance in the microfinance sector.

Regarding training and development, the study recommends that organizations should offer continuous professional development opportunities that are tailored to the unique needs and learning preferences of their employees. This involves providing a variety of training formats and content that allow employees to choose the development opportunities that best suit their career aspirations and learning styles. Individualized development plans should be created through open discussions with employees about their professional goals, current strengths, and areas where they need growth. By aligning training initiatives with both the organization's objectives and the personal ambitions of employees, organizations can foster a learning culture that maximizes potential. Management should also be mindful of the importance of offering in-person training where there is clear demand, thus supporting employees in a way that complements their learning preferences and enhances overall performance in the organization.

Finally, the study stresses the critical role of restructuring in improving the performance of microfinance institutions. Successful restructuring begins with the identification and selection of leaders at each key level of the organization who can serve as change champions. These leaders must fully embody, take ownership of, and actively promote the organization's future vision, helping to rally the entire workforce

around this shared goal. However, it's important to recognize that not all current leaders may immediately embrace this new vision. To drive change effectively, realistic yet ambitious targets should be set, ensuring that the restructuring process has credibility and a clear path forward. These targets must be communicated through specific, measurable metrics that guide organizational efforts. By focusing on both financial and strategic goals, leaders can steer the organization through the restructuring process, ensuring alignment across departments and achieving sustainable improvements in performance.

### **5.5 Suggestions for Further Studies**

The study recommends that further research be conducted to explore additional organizational strategic responses beyond those examined in this study—namely, strategic planning, product design, training and development, and restructuring—to address the identified 37.6% gap in the regression model. This gap represents the variance in the performance of microfinance institutions in Nairobi City County that remains unexplained by the variables included in the current study, as reflected in the adjusted R square value of 0.624. This indicates that while the studied variables significantly contribute to organizational performance, other unexamined factors are likely at play. Exploring these additional factors is crucial, as it can provide a more holistic understanding of the strategic responses that influence microfinance institutions. Furthermore, investigating other financial institutions beyond microfinance institutions could reveal whether the same or different factors affect their performance, thus improving the applicability and generalizability of these findings across the broader financial sector in Nairobi City County.

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## APPENDICES

### Appendix I: Cover Letter

Dear Respondent

#### **Re: Data Collection**

I am a student at Kenyatta University taking Master's Degree in Business Administration specializing in strategic management. Currently working on academic research titled '**STRATEGIC RESPONSE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA**' as part of my degree requirement.

Please note that your responses will be treated with utmost confidentiality and your response will be used for this research purpose only. Kindly read each question and tick or write as advised.

Sign:.....

Date: .....

Prisca Jebet Kemei

## **Appendix II: Questionnaire**

Please respond to the statements below to the best of your knowledge and experience.

Do not write your name or that of your department anywhere on this questionnaire but tick [] where appropriate or fill in the required information on the spaces provided.

### **Section A: Demographic Data**

1. Indicate your Gender: [] Male [] Female
2. Age bracket?  
Less than 29 years [] 30 – 39 Years [  
40 – 49 Years [] 50 years and above [
3. Indicate your highest level of education  
Diploma [] Post Graduate Diploma [  
Bachelor's Degree [] Master's Degree [
4. How long have been working with micro financial institutions.  
Less than 5 years [] 5-9 years [  
10- 15 years [] Above 15 Years [

### **Section B: Strategic Planning**

The following list of statements regard the influence of strategic planning on the performance of microfinance institutions in Nairobi City County, Kenya. Kindly rate each of the statement based on your level of agreement guiding by the following Likert scale format.

Strongly agree (SA)=5, Agree(A)=4, Undecided (U)=3, Disagree (D)=2, and Strongly, Disagree (SD)=1

Statement	1	2	3	4	5
Setting of objectives enables the managers communicate to employees what type of goals to set to support the institution's growth.					
Setting of goals enables the managers of microfinance institutions clarify to employees how they can achieve the institution's goals					
Budget allocation helps the organizations formulate their activities allowing it to better understand priorities					
Budget allocation allows that organization to figure out how resources can be allocated and which areas need to be reevaluated.					
Setting of priorities has helped employees to take control of their time to meet important deadlines					
Setting of priorities has enabled optimal allocation of resources to strategic issues within the micro finance institutions					

5. According to your opinion, state how strategic planning influences the performance of microfinance institutions in Nairobi City County, Kenya?

.....  
.....

**Section C: Product Design**

The following list of statements regard the influence of product design on the performance of microfinance institutions in Nairobi City County, Kenya. Kindly rate each of the statement based on your level of agreement guiding by the following Likert scale format.

Strongly agree (SA)=5, Agree(A)=4, Undecided (U)=3, Disagree (D)=2, and Strongly, Disagree (SD)=1

Statement	1	2	3	4	5
The uniqueness of micro finance institution products have enabled them to stand out in the financial market					
The uniqueness of micro finance institution products have enabled them to charge premium prices					
Effective product design has enabled the micro finance institutions to boost customer loyalty					
Effective product design has enabled the micro finance institutions to reduce customer complaints					
The organizations have integrated the design to enhance product development while lowering cost and improving quality.					
The integration of design has led to a tremendous impact on improving productivity and eliminating various product challenges.					

6. According to your opinion, state how product design influences the performance of microfinance institutions in Nairobi City County, Kenya?

.....  
 .....

**Section D: Training and Development**

The following list of statements regards the influence of training and development on the performance of microfinance institutions in Nairobi City County, Kenya. Kindly rate each of the statement based on your level of agreement guiding by the following Likert scale format.

Strongly agree (SA)=5, Agree(A)=4, Undecided (U)=3, Disagree (D)=2, and Strongly, Disagree (SD)=1

Statement	1	2	3	4	5
Training and development programs have enabled the micro finance institutions to improve their employee engagement as feel valued and appreciated.					

Employees are better able to do their work efficiently and well because they are prepared with the right skills and knowledge					
The micro finance institutions offers regular training and development opportunities that has increased the uniformity of work processes					
Training and development programs have enabled the micro finance institutions to builds future leaders by providing the education necessary for growth.					
Trained and developed employees have increased efficiency and within the micro finance institutions					
Employee training and professional development has encouraged a positive culture which has increase the morale of employees					

7. According to your opinion, state how training and development influences the performance of microfinance institutions in Nairobi City County, Kenya?

.....  
 .....  
 .....  
 .....

**Section E: Restructuring**

The following list of statements regards the influence of restructuring on the performance of microfinance institutions in Nairobi City County, Kenya. Kindly rate each of the statement based on your level of agreement guiding by the following Likert scale format.

Strongly agree (SA)=5, Agree(A)=4, Undecided (U)=3, Disagree (D)=2, and Strongly, Disagree (SD)=1

Statement	1	2	3	4	5
The micro finance institutions have reduced their overhead expenses					

Through cost reduction, the MFIs have improved quality and service levels while still maintaining or improving bottom-line results.					
A talent management system helps with succession planning by using data to visualize bench strength, map skills to open positions and identify areas where needs will surface					
Talent management systems help collect and make it easy to track and analyze data that will point to causes of attrition					
Restructuring enables the organization to earn new investment					
Restructuring often gets rid of non-essential layers in the management chain which opens up the lines of communication allowing for increased efficiency					

8. According to your opinion, state how restructuring influences the performance of microfinance institutions in Nairobi City County, Kenya?

.....

.....

.....

.....

**Section F: Organizational Performance**

The following list of statements regards the performance of microfinance institutions in Nairobi City County, Kenya. Kindly rate each of the statement based on your level of agreement guiding by the following Likert scale format.

Strongly agree (SA)=5, Agree(A)=4, Undecided (U)=3, Disagree (D)=2, and Strongly, Disagree (SD)=1

Statement	1	2	3	4	5
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Strategic responses have enabled the micro finance institutions to expand its market share					
Strategic responses have enabled the micro finance institutions to increase their efficiency					
Strategic responses have enabled the micro finance institutions to offer products and services that satisfy the needs of their customers					

### **Appendix III: List of MFIs**

1. Caritas Microfinance institutions Limited
2. Century Microfinance institutions Limited
3. Choice Microfinance institutions Limited
4. Daraja Microfinance institutions Limited
5. Faulu Microfinance institutions Limited
6. Kenya Women Microfinance institutions Limited
7. Maisha Microfinance institutions Ltd
8. Rafiki Microfinance institutions Limited
9. Remu Microfinance institutions Limited
10. SMEP Microfinance institutions Limited
11. Sumac Microfinance institutions Limited
12. U & I Microfinance institutions Limited
13. Uwezo Microfinance institutions Limited

Source: CBK (2024)

## Appendix IV: Approval Letter



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
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Internal Memo

FROM: Executive Dean, Graduate School

DATE: 4<sup>th</sup> December, 2023

TO: Prisca Jebet Kemei  
C/o Business Administration Dept.

REF: D53/MSA/PT/32768/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 8<sup>th</sup> November, 2023 approved your Research Project Proposal for the M.B.A Degree Entitled, **“Strategic Response and Performance of Microfinance Institutions in Nairobi City County, Kenya.”**

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNABEL MWANIKI  
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL


c.c. Chairman, Business Administration.

Supervisors:

1. Dr. Maina Rugami  
C/o Department of Business Administration  
Kenyatta University

AM/mo

## Appendix V: Research Permit

 <p>REPUBLIC OF KENYA</p>	 <p><b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b></p>
Ref No: <b>930691</b>	Date of Issue: <b>16/January/2024</b>
<b>RESEARCH LICENSE</b>	
	
<p>This is to Certify that Ms. PRISCA JEBET of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: <b>STRATEGIC RESPONSE AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA</b> for the period ending : <b>16/January/2025.</b></p>	
License No: <b>NACOSTI/P/24/32491</b>	
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