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Impact of Operational Process Factors on Strategy Implementation in Microfinance Organisations in a Developing Country

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This paper sets to explore management perceptions regarding the impact of operational process factors on strategy implementation in microfinance organisations in Kenya. Small and medium enterprises (SMEs) play a critical role in developing countries as a source of employment creation and a basis for industrialization. However, the sector receives inadequate financial support from commercial banks as it is considered to bear high risks and operational costs associate with lending small loan amounts. Microfinance organisations (MFOs) that serve this sector will need to expand their operations to increase their outreach to SMEs. Formulation and implementation of competitive strategies will enable MFOs to achieve growth and sustainability. Content, context and operational process factors appear to have a significance positive relationship to the level of strategy implementation. This paper is focusing on operational process factors impacting on strategy implementation and is part of a full study on the topic of strategy implementation in MFOs. Comprehensive literature review provided the theoretical framework for the study. Primary data were collected by means of a survey obtaining 300 self-administered questionnaires from managers in 135 MFOs in Kenya. The study revealed that the level of strategy implementation in MFOs in Kenya is moderate to high. This study has revealed that the operational process category of factors is more significant to the level of strategy implementation than content and context factors. Five operational process factors critical to strategy implementation include: operational planning and monitoring, management control systems, people-strategy fit, teamwork, and effective communication. Further, the level of strategy implementation has significance positive influence to MFOs' financial sustainability and outreach. Practical guidelines are provided to assist MFOs in developing countries to improve the level of strategy implementation by focusing on operational process factors.

Keywords: Strategy , strategy implementation ,Operational process, Microfinance organizations, small and medium enterprises

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Introduction and Background

Microfinance organisations (MFOs) are an acceptable and powerful tool for improving socio-economic status of the poor, who are hitherto not served by mainstream commercial banks. Access to financial services enables the poor to invest and increase incomes, leading to improved quality of life (United Nations Development Programme-Human Development Report, 2010, p. 54). Studies carried out on clients of MFOs show dramatic improvements of clients' household income levels and increased capacity of women to make social and economic decisions (United Nations Capital Development Fund [UNCDF], 2006, p. 1). Microfinance organisations are critical in expanding economic opportunities for poor people by helping them build up their asset base which contributes to their social and economic empowerment (Kaplan, 2007, p. 1).

The role of microfinance is critical in Kenya due to socio-economic inequalities. Inequality in the country manifests itself in various dimensions including access to basic social amenities, income levels, and gender bias. In Kenya, small and medium enterprises (SMEs) create employment at low levels of investment per job, leading to increased participation of indigenous people in the economy; they use local resources, promote creation and use of local technologies, and provide skills training at low cost to the society (International Labour Organisation [ILO], 2008, p. 19).

Despite the critical role played by the SMEs in growing economies, they remain outside the formal banking sector and one of the commonly cited challenges experienced by SMEs is limited access to financial services. In Kenya, the SME sector was excluded by the formal banking sector since it was perceived as risky and costly to process and follow-up small loans. Despite the critical need of MFOs to provide financial services to the SMEs and the poor, the sector has only been able to meet 4% demand of its potential market, although the annual growth is on average 25-35% (UNCDF, 2006, p. 1). The demand for microfinance services is largely unmet. This situation implies that MFOs should formulate and implement growth strategies to improve their outreach, operational sustainability, and profitability. Porter (2004, p. 3) maintained that organisations must formulate competitive strategies relating to the industry for their growth and survival. Most of the MFOs in the advent of intense competition have adopted the practice of strategy formulation. Nevertheless, like most organisations, the level of strategy implementation is often low. Hence, this study is aimed at identifying factors that influence strategy implementation in MFO's. Successful implementation of strategies will ensure a more vibrant sector capable of expanding the outreach to SMEs and poor households, and will effectively compete with commercial banks and new entrants into the sector.

The first part of the article covers the introduction and background to the study, problem statement, and research objectives. This is followed by a literature overview on strategy implementation, hypotheses, and the research methodology adopted for this study. The last part covers the empirical results and highlights the main conclusions and recommendations.

Problem Statement

Poverty is a major problem in most developing economies. It is argued that inadequate access to credit by the poor and small businesses for the purpose of working capital and investment is a major cause of poverty in developing countries (Jean-Luc, 2006). With an estimated population of 44.6 million people and per capita income of US$592.92, Kenya is categorized by the World Bank as low income and among the poorest countries in the world (World Bank Report, 2013).

The economy has been experiencing slow growth while the disparity between the rich and the poor continues to increase. The result of slow economic growth is characterized by widespread inflation, unemployment and high levels of poverty where over 56% of the population survives on one US dollar per day (Government of Kenya [GoK], 2005). Dobbs and Hamilton (2007, p. 296) noted that productive, innovative, small businesses generate employment, promote economic growth, and are responsible for 95% of all radical innovations. Hence, MFOs are recognized and acknowledged as vital and significant contributors to economic development, employment creation, and technological development (Mortis, 2000). Thus, MFOs require formulating and implementing competitive strategies to improve financial sustainability and outreach to SMEs and the poor.

Against this background, the main research question to be addressed in this study is: What is management perceptions regarding the impact of operational process factors on strategy implementation in microfinance organisations in Kenya?

Research Objectives

The primary objective of this paper is to investigate the impact of operational process factors that impact on strategy implementation in microfinance organisations in Kenya.

Secondary Goals

The following secondary research goals will assist to achieve the primary objective of the study:

- To critically review the literature pertaining to strategy implementation, operational process, and outcome factors.
- To empirically assess management perceptions on the impact of operational process factors on the level of strategy implementation.
- To assess the impact of level of strategy implementation on performance of MFOs.
- To provide managerial guidelines and recommendations on how to improve the level of strategy implementation to achieve financial sustainability and increase outreach.

Hypotheses

The following hypotheses were formulated and tested in this study:

H_1: There is a positive relationship between operational planning and the level of strategy implementation.

H_2: There is a positive relationship between monitoring of progress in strategy implementation and the level of strategy implementation.

H_3: There is a positive relationship between teamwork and the level of strategy implementation.

H_4: There is a positive relationship between resources allocation to strategy and the level of strategy implementation.

H_5: There is a positive relationship between people-strategy fit and the level of strategy implementation.

H_6: There is a positive relationship between effective communication and the level of strategy implementation.

H_7: There is a positive relationship between the use of strategic and management control systems and the level of strategy implementation.

H_8: There is a positive relationship between use of information resources and the level of strategy implementation.

H_9: There is a positive relationship between the level of strategy implementation and financial sustainability of MFOs.

H_{10}: There is a positive relationship between level of strategy implementation and outreach of MFOs.

Proposed Hypothetical Model

From the secondary sources analyzed in this study, a hypothetical model of the influence of operational process factors on the level of strategy implementation and the impact of level of strategy implementation on the performance of MFOs as measured by financial sustainability and outreach was constructed. According to secondary sources, strategy implementation could be influenced by context, content and operational process factors. Some of the operational process factors include: operational planning, monitoring of progress, teamwork, resources allocation to the strategy, people-strategy fit, effective communication, use of strategic and management control systems, and use of information resources. It is hypothesized that if all these critical strategy implementation factors are addressed, MFOs could improve their level of strategy implementation leading to improved performance. The intermediating factor, according to the hypothetical model, is the level or extent of strategy implementation which could be regarded as high, moderate, or low. The outcome factors would be improved financial sustainability and outreach of MFOs. It should therefore be noted that the model below forms part of a bigger model and study that would comprise context and operational process factors.

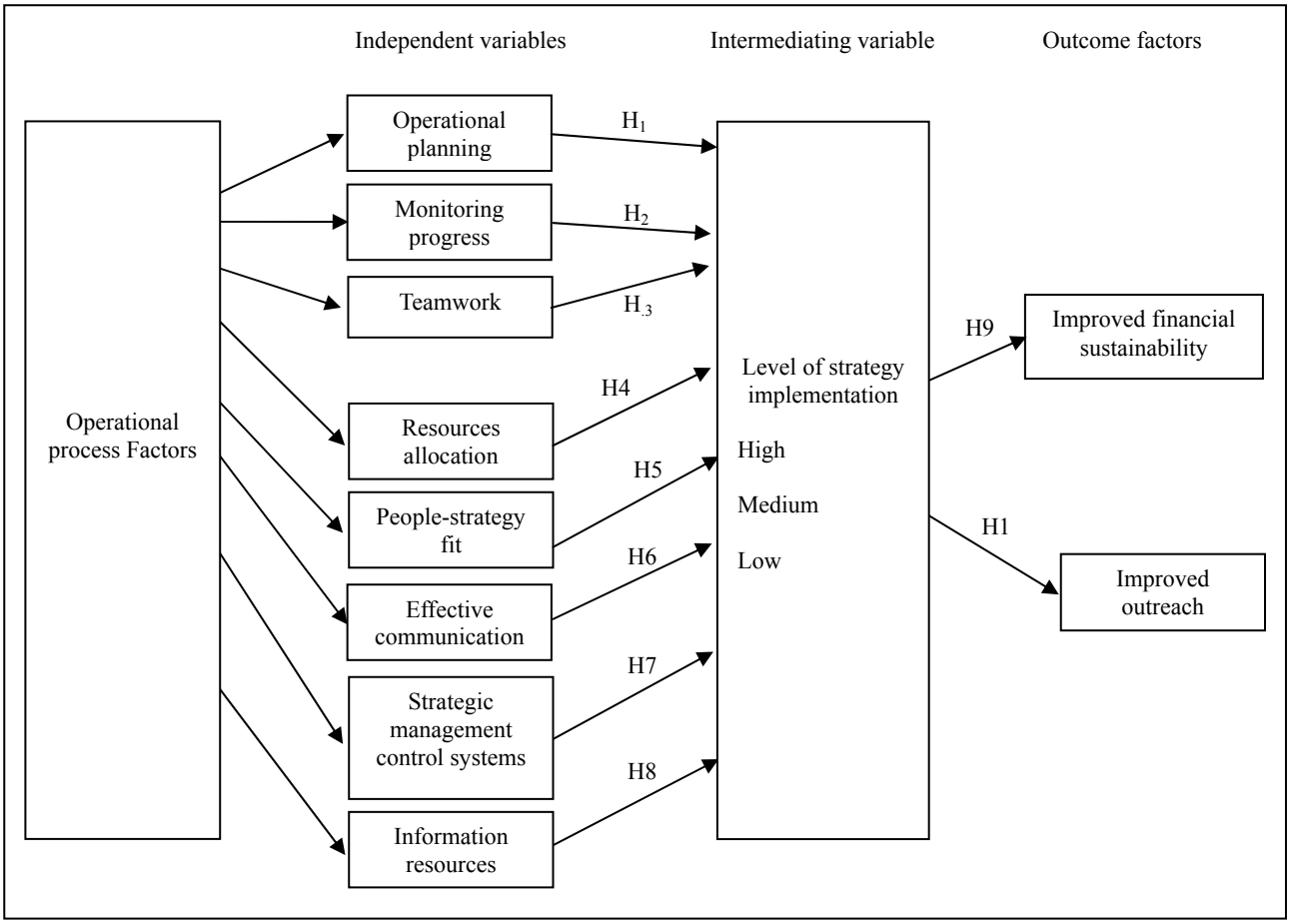

Figure 1. Hypothetical model on influence of content factors on the level of strategy implementation (Source: Own construction).

Literature Overview of Operational Process Factors and Strategy Implementation

Clarification of Key Concepts

Microfinance organisations. "Microfinance" refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan (Business News Daily, 2013). Schreiner and Colombet (2001) referred to microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks" (p. 339). Therefore, microfinance involves the provision of financial services, such as savings, loans, and insurance to poor people living in both urban and rural settings, who are unable to obtain such services from the formal financial sector.

Strategy. "Strategy" refers to the art and science of planning and marshaling resources in the most efficient and effective manner. It is derived from the Greek word for generalship or leading an army (Business Dictionary.com, 2013). De Wit and Meyer (2004) suggested that strategy refers to knowing the business one proposes to carry on, "resulting in choices on where to play and how to win in order to maximize long-term value" (p. 25). Strategy is thus an action that managers take to attain one or more of an organisation's goals, indicating the general direction set for the organisation and its various components to achieve a desired state in the future.

Strategy implementation. According to Henry (2011, p. 8), strategy implementation in its narrowest sense refers to the translation of a chosen strategy into organisational actions to achieve strategic goals and objectives. Ireland, Hoskisson, and Hitt (2011, p. 25) contended that strategy implementation is the manner in which an organisation should develop, utilize, and integrate structures, control systems and culture to follow strategies that lead to competitive advantage and a better performance. It is thus the translation of strategy into organisational actions, and together with strategy formulation forms strategic management.

Literature Perspectives of Strategy Implementation

Although strategy implementation is cited as a key challenge in strategic management that limits the success of strategies, there is little literature on strategy implementation. Since management literature has over the years focused primarily on new ideas on strategy formulation, strategy implementation has been neglected. Hence, there has not been commonly agreed on an acceptable process of strategy implementation, and most authors and top managers have acknowledged the overwhelming challenge of implementing a strategy successfully. This section will discuss what some authors consider the appropriate process or methods of strategy implementation. The strategy implementation process is concerned with how decisions are put into action (De Wit & Meyer, 2004, p. 997). This includes activities leading to and supporting a strategy implementation effort. The section below gives overview of what the researchers consider comprises the process of strategy implementation.

According to MacIlwaine (2000, p. 1), implementation of strategy commonly remains significantly behind the quality of the actual strategic plan. Often the plan gets launched in a stunning presentation to employees and stakeholders, but two months later, the strategy components are hardly remembered by employees at lower levels, and six months later, the delivery of results is behind schedule. According to Hrebiniak (2006, p. 38), the strategy implementation process should focus on nine factors to ensure its success. These factors are:

- a logical model to guide managers during the implementation process;
- a sound well-conceived strategy;

- effective management of change;
- organisation capabilities to implement strategy;
- effective coordination and information sharing;
- clear responsibility of every individual;
- system of accountability for results;
- right culture supportive of the strategy;
- Leadership that is execution-based.

Wayne (2009, p. 1) indicated that strategy implementation is a discipline that involves a process of operational planning, follow-up and accountability. It is the main task of the leader, and organisational culture must be embedded into it, such as norms, rewards, behaviors, and systems. According to Kaplan (2005, p. 72), the persistent gap between strategy formulation and implementation is where organisations fail to attain the planned results arising from a lack of coherent processes to manage strategy implementation.

Vivendi (2005) stated that strategy implementation should focus on putting the right people in the right places. The right people could be hired or current staff trained at all levels to achieve and sustain superior performance. Another important factor is aligning all the business processes to the strategy. These views are supported by Bossidy and Charan (2002, p. 35) that the successful strategy execution process must link organisational people processes, business processes, and strategy. However, these authors fail to provide details on how organisations can implement these three core processes to achieve strategy success.

Literature on Operational Process Factors

The art of strategy implementation involves management of integrated factors grouped as operational process factors. The success of implementation depends on how management manipulates all the factors at play. The following section provides literature review on each of the outlined variables.

Operational planning. Key tasks not well defined in a detailed manner leading to vagueness have been cited as a leading cause of strategy implementation failure (Alghambi, 1998, p. 323; Corboy & Corrbui, 1999; Raps, 2005, p. 142). Action planning and budgeting are among the oldest management tools but they are still effective for ensuring that implementation occurs and that tactics align with strategy. Action planning involves clear allocation of tasks and expected results within a given timeframe for individuals and departments. If tasks are not well allocated to individuals and departments, this may lead to power struggles and conflicts (Raps, 2005, p. 142). Departmental plans must be cascaded down to individual plans to enhance accountability and to deliver results. Action plans must also be negotiated and agreed upon either at departmental or individual levels. This study investigated the impact of operational planning through action planning and budgeting within microfinance organisations, since they have an impact on the level of strategy implementation and performance.

Monitoring and review of progress. Effective implementation requires continuous monitoring of the progress towards action plan implementation, also of competitive environment, customers' satisfaction, and the financial returns generated by the strategy. Monitoring is meaningless if it is not accompanied by accountability and change when required. Departments and individuals must be given clear performance targets (Sterling, 2003). Organisations with clear monitoring systems of assessing performance of individual employees and departments according to plans are more successful in strategy implementation than those without effective systems of monitoring progress (Chimhanzi & Morgan, 2005, p. 787). Formal review of progress will increase

the probability of reaching the goals, since the organisation is able to look at the gaps between measurement of current conditions and targets (Terry, 2011). Key performance indicators must be included in the design of a scorecard. In addition, quantitative reports based on data and narrative reports on matters, such as threats, opportunities, events, and audits assist in reviewing organisational performance (Janssen, 2001).

Teamwork. Teamwork is the ability to work together towards a common vision that directs individual accomplishments towards organisational objectives, and is the fuel that allows common people to attain uncommon results (Carnegie, 2009). According to Noble (1999b, p. 27), teamwork plays an important role in the process of strategy implementation. Organisations are required to deploy various methods to build cohesive and high-performing teams (Dyson, 2005, p. 370). Chimhanzi (2004, pp. 73-76) suggested that cross-departmental working relationships have a key role to play in successful implementation of strategies, and that effectiveness is affected negatively by conflicts in the workplace. This study investigated the extent to which employees in the organisation work as a team, including inter-departmental relationships and the effect of teamwork on strategy implementation and organisational performance.

Resource allocation. For effective strategy implementation, all the necessary resources must be available, such as time, financial, skills, and knowledge. Sterling (2003) was of the opinion that some strategies fail because not enough resources are allocated, especially for capital-intensive strategies. There is a need for financial evaluation of a strategy to ensure that it does not inadvertently destroy shareholder value, and to ensure that sufficient resources are available to achieve its implementation. Financial evaluation of the strategy enables management to assess the impact of the strategy on the financial performance of the organisation, and to identify alternative sources of funds. According to Wernham (1995, p. 632) and Okumus (2001, p. 327), organisations need to allocate sufficient material resources for effective implementation of strategies. Organisations must evaluate resources required to implement strategies before their implementation. The cost of implementing strategies should be compared with the returns or benefits after the strategies are implemented.

People-strategy fit. Effectiveness of strategy implementation is affected by the quality of people involved in the process. "Quality" here refers to skills, attitudes, capabilities, experiences, and other characteristics of people required by a specific task or position (Peng & Litteljohn, 2001, p. 365). The view is supported by Viseras, Baines, and Sweeney (2005) that strategy implementation success depends crucially on the people side of project management, and less on organisational and systems-related factors. For effective implementation of strategy, there is a need for the right number of staff with relevant knowledge and capacities. One of the causes of poor strategy implementation is the shortfall on employees' capabilities (Beer & Eisenstat, 2000; O'Regan & Ghobadian, 2002, p. 416). Aaltonen and Ikavaiko (2002, p. 417) stressed the important role of middle-level managers in strategy deployment, and warned that their inadequate understanding of the strategy and the needed skills are a cause of strategy implementation failure. Insufficient capabilities of employees and poor leadership have cause poor strategy implementation (Alexander, 1999). According to Okumus (2003, p. 879), for effective implementation of strategy, organisations need to assess the current quality of employees in terms of their skills, competencies, and number, and make decisions that will facilitate effective strategy implementation. Such decisions may include recruitment of new staff with the skills and knowledge needed by staff at different levels, and design incentive systems related to strategy implementation.

Effective communication. Most of the contributors to strategy implementation have identified ineffective communication as a major cause of poor strategy implementation. Raps (2005, p. 141) stated that communication is what implementation is all about, because change must be effectively communicated. Peng

and Litteljohn (2001, p. 365) added that communication barriers are reported more frequently than any other type of barrier to strategy implementation. The view is supported by Heide, M., Gronhaug, K. & Johannessen, S. (2002, p. 260) and Rapert, Garretson, and Velliquette (2002, p. 303) that communication is a common barrier to strategy implementation, and plays an important role in the implementation process. In spite of the critical role of communication in strategy implementation, Forman and Argenti (2005, p. 245) noted that scholars in strategic management have given little attention to the links between communication and strategy. Corporate communication has always focused on the relationship of the organisation and its external stakeholders. These authors suggest that when vertical communication is frequent, strategic consensus (shared understanding about strategic priorities) is enhanced, and an organisation's performance improves. Clearly, alignment between the corporate communication function and the strategic implementation process is fundamental to successful strategy implementation. The study investigated the availability of communication plans/processes in organisations and their effect on strategy implementation and organisational performance.

Strategic and management control systems. Strategic control systems ensure that the immense effort put into preparing detailed strategic plans is translated into action, by focusing on short-term targets that deliver long-term goals (Bungay & Goold, 1999, p. 31). Strategic control systems are essentially required to provide a balance between long-term organisational goals and short-term operational demands. Control systems need to incorporate feedback and opportunities to devise and revise the strategies as well as to specify measures of these objectives (Travakoli & Perks, 2001, p. 297). Successful strategy implementation is therefore dependent on effective strategic as well as management control systems. According to Atkinson (2006, pp. 23-24), several management frameworks have been developed to assist in managing a wide range of organisational activities, such as ISO9000, Six Sigma, and quality models which have emerged from the total quality management (TQM) movement.

Other frameworks have been developed owing to dissatisfaction with the traditional measures, such as accounting performance-using metrics. Such a framework is the balanced scorecard that emerged from the dissatisfaction with traditional performance systems dominated by short-term financial metrics that are internally orientated and not linked to the organisational strategy (Atkinson & Brander, 2001). The balanced scorecard provides management with a set of measures that give a comprehensive view of the business in terms of four key perspectives, within which a vision, strategy and goals are articulated before translating them into specific initiatives and targets and measures. It has four perspectives: financial, customer, internal business, and learning/growth. This study investigated the use of strategic and management control systems which are effective in linking long-term strategic goals with short-term operational objectives to ensure effective strategy implementation and improved organisational performance.

Information systems. Alignment of information systems with a strategy is a critical process. This means that application of information technology could enhance the success of deployed strategies and customer satisfaction. Organisations can seldom execute strategies without technology, and should not implement new technology without a strategy behind it (Sterling, 2003). Strategies fail when organisations do not recognize that existing systems and methodologies will not enable success, and too often employees' roles are redefined with little regard to the systems, processes that guide, and enable their work. Organisational processes and systems must meet the demands of the new strategic vision; pursuing new strategies with old capabilities is a recipe for disaster (Scott, 2002, p. 36). This study investigated the extent to which strategies are aligned with information technology, and the resultant impact on strategy implementation and organisational performance.

Literature on the Level of Strategy Implementation and Performance of MFOs

This study suggests that microfinance organisations that achieve a high rate of strategy implementation tend to experience substantial incremental performance benefits over those that are stuck in the process (Acquaah & Masoud, 2008, p. 346). Meyer and Zeller (2002) developed the "critical micro-finance triangle" to assess performance. It includes outreach to the poor, financial sustainability, and welfare impact.

Financial sustainability. The key performance indicator of an MFO is its financial sustainability. It is noted that financial sustainability is one of the areas that need to be looked at when assessing the performance of MFOs. According to Navajas (2000, p. 335), financial sustainability takes place when MFOs are able to cover the costs of funds and other forms of subsidies received valued at market prices. This is a high value measure of performance as it indicates the capability of the organisation to grow its own funds or sustain borrowing from the commercial market.

Outreach to the poor and SMEs. Outreach at a glance means the number of clients served. However, Meyer and Zeller (2002) noted that outreach is a multidimensional concept. In order to measure outreach, it is necessary to look at different dimensions. According to Navajas (2000, pp. 335-337), there are six aspects to measuring outreach—depth, worth of users, cost to users, breadth, length, and scope.

Research Methodology

Research Paradigm

The research objective of this study was to investigate context factors that affect the level of strategy implementation of MFOs in Kenya. Hence, the aim was to quantify the significance of these factors on the level of strategy implementation, which required that a positivistic or quantitative approach be used.

Population

There is no comprehensive database of MFOs in Kenya. The population for this study was drawn from the only database provided by the Central Bank of Kenya in 2005 and there were then an estimated 3,150 MFOs in the country. Only about 20% of these MFOs had been in operations for 10 years or longer. This study assumed that strategy development for MFOs that had been less than 10 years in operation was at a nascent stage or was just emerging, and therefore the managers might not provide substantial contributions to the factors that influence the level of strategy implementation in their MFOs. The total study population was thus 630 MFOs that had been in operation for more than 10 years.

Sampling

A non-probability sampling procedure, namely purposive sampling, was used to select MFOs that were members of Association of Microfinance Institutions (AMFI). Thereafter, convenience sampling was used to select the other MFOs. In total, 135 MFOs were involved in this study. Where managers in an MFO were not responsive to the study, they were replaced by others. From each MFO, the chief executive officer (CEO) and one or more middle-level manager were selected as respondents. To ensure that the managers had a firm grip on strategy implementation issues of the MFOs, one was to have been with the MFO for at least two years. Three hundred and fifty questionnaires were distributed and 300 usable questionnaires were returned and used for analysis purposes (response rate of 87%).

The Measuring Instrument

The instrument in this study was self-administered questionnaires using the survey method. The

questionnaire was constructed using a five-point Likert type scale. The following are the sections of the measuring instrument. Sections A to E measured responses based on an ordinal scale (1 = "Strongly disagree", 2 = "Disagree, 3 = "Neutral", 4 = "Agree", and 5 = "Strongly agree") and Section F used a nominal scale:

- Section A: Perceptions regarding influence of operational process factors on level of strategy implementation;
- Section B: Perceptions regarding the extent or level of strategy implementation in microfinance organisations in Kenya;
- Section C: Perceptions regarding outcomes/results of effective strategy implementation;
- Section D: Biographical information (gender, position in organisation, number of employees, years of MFO existence, type MFO registration, financial services provided, number of clients, and level of strategy implementation).

Pilot Study

The questionnaires were pre-tested in 22 MFOs where 40 respondents (CEOs and managers) completed the questionnaires. The purpose was to test the measuring instrument for validity and reliability.

Data Collection

Secondary data. Secondary data consisted of an in-depth literature review on strategy implementation, analysis of the business environment in Kenya, and operations of MFOs. Sources for secondary data comprised textbooks, journal articles, and the Internet.

Primary data. Primary data were collected from the CEOs and senior managers of the sampled MFOs by means of a survey using self-administered questionnaires. Questionnaires were given to the respondents through email communication and hand delivery by research assistants. Completed questionnaires were either sent through email by the respondents or collected by the research assistants. The section below highlights the methods used to undertake data analysis.

Data Analysis

The SPSS computer programme (SPSS 20.0, 2006) was used to analyse the data. The following are types of analysis used:

- Descriptive statistics to establish the mean, mode, median, and standard deviation;
- Frequency distributions of the biographical data of the respondents;
- A reliability analysis to assess the internal consistency of the research instrument (Cronbach's alpha values);
- Exploratory factor analysis to test construct validity;
- Regression and correlation analysis to investigate the relationship between dependent and independent variables of the study and to test the hypotheses.

Validity and Reliability of the Measuring Instrument

This section briefly highlights the validity and reliability of the measuring instrument.

Validity. Validity of the measuring instrument (questionnaire) was conducted using exploratory factor analysis. Factors with a loading of less than 0.50 were excluded from further analysis. Construct validity was assessed by means of convergent and discriminant validity.

Reliability. The reliability of the measuring instrument will be assessed by means of Cronbach's alpha values.

Empirical Results

Demographic Profile of the Respondents

Table 1 shows the demographic profile of the respondents and the characteristics of the MFOs sampled.

Table 1

Demographic Profile of the Respondents and MFOs

Demographic Data	Category	Frequency	Percentage (%)
Gender	Male	112	37
	Female	118	63
Position in the organisation	Chief executive officer	35	12
	Manager	265	88
Number of employees	Small (< 50)	146	49
	Medium (51-199)	83	28
	Large (200+)	71	23
Number of clients	Below 20,000	124	41
	20,000-60,000	68	23
	61,000-100,000	30	10
	Above 100,000	78	26
Years in existence	One to five years	78	26
	Six to10 years	86	29
	11-15 years	63	21
	16 years+	73	24
Financial services provided*	Credit services	252	84
	Deposit taking	153	51
	Insurance services	21	7
	Medical services	27	9
Type of registration*	Deposit-taking MFO	123	41
	Company	84	28
	NGO	24	8
	SACCO	78	26
Possession of strategic plan	Yes	286	96
	No	11	4
Level of current strategy implementation	Low	58	19
	Moderate	141	48
	High	96	33

Note. Results are not adding up to 300 or 100% because respondents could answer more than one option.

The results indicate that 12% who responded to the questionnaire were chief executive officers and 88% were senior managers. Of the number of employees, 49% of the MFOs had fewer than 50, 28% between 51 and 199, and 23% had over 200 employees. Regarding the type of registration, 41% of the MFOs were registered as deposit-taking MFOs, 28% as companies, 8% NGOs, and 26% as SACCOs. Two common services offered to clients by MFOs were credit services mentioned by 84% of the respondents, and deposit taking (51%). Further, 41% of the respondents indicated that the MFOs were serving less than 20,000 clients and only 26% of respondents indicated their customer number was above 100,000. Ninety-six percent of the respondents reported that their respective MFO did possess a strategic plan and 48% reported that there was a moderate level of strategy implementation in their MFO's (strategies implemented 41-70% of the time).

Exploratory Factor Analysis

The purpose of factor analysis is to reduce large sets of variables to design a more manageable number of factors based on the nature of the relationships. In this study, a loading of 0.5 and above was considered significant to confirm convergent validity. A cut-off point of three items loading in a factor was considered significant in this study.

In Table 2, respondents perceived operational factors influencing level of strategy implementation to comprise five factors as opposed to eight factors in the original theoretical framework (each factor comprised five statements). Seventeen items (A6, A8, A2, A13, A14, A15, A17, A25, A26, A28, A29, A30, A31, A32, A35, A37, and A38) loaded into factor one and were referred to as operational planning and monitoring. Thirteen items loaded onto factor two (A1, A2, A3, A4, A5, A9, A10, A11, A16, A22, A34, A39, and A40). These items were grouped as management control systems. Further, three items loaded onto factor three, namely A23, A24, and A33 and were grouped as people-strategy fit factor. Four items (A18, A20, A21, and A36) all loaded onto factor four and were grouped as teamwork while three items (A7, A19, and A27) were grouped together as effective communication.

Table 2

Factor Loadings: Management Perceptions Regarding Operational Process Factors Influencing the Level of Strategy Implementation

	Items	Operational planning and monitoring	Management control systems	People-strategy fit	Teamwork	Effective communication
		Factor 1	Factor 2	Factor 3	Factor 4	Factor 5
A1	There is a clear system of reviewing progress towards action plan implementation.	0.312	**0.628**	0.300	0.030	0.061
A2	Key performance indicators are measured by means of a scorecard.	0.156	**0.760**	0.197	0.042	0.141
A3	The balanced scorecard is used to translate long-term goals into short-term measurable objectives providing a comprehensive view of the business.	0.190	**0.698**	0.195	0.193	0.189
A4	Departments and individuals are provided with clear performance targets.	0.381	**0.690**	-0.068	-0.070	-0.140
A5	Integrated communication plans are an effective vehicle for focusing employees' attention on the value of the selected strategies to be implemented.	0.472	**0.610**	-0.112	0.139	-0.077
A6	Provision of skills and knowledge needed by staff at different levels is a priority.	**0.598**	0.369	0.209	-0.009	-0.272
A7	Staff incentive systems are related to contributions made to strategy implementation.	0.494	0.280	0.447	0.195	**-0.596**
A8	Financial evaluation of the strategy enables management to assess the impact of the strategy on the financial performance of the organisation.	**0.656**	0.247	-0.015	0.130	-0.126
A9	There are staff with the required expertise to manage the information systems.	0.285	**0.647**	0.251	0.049	-0.108
A10	Information processes and systems meet the demands of a new strategic vision or direction.	0.266	**0.645**	0.322	0.136	-0.128

Table 2 to be continued

A11	The financial benefits of implementing a strategy are assessed.	0.481	**0.523**	0.003	0.113	0.038
A12	There is clear allocation of tasks and expected results within a given timeframe to individuals and departments.	**0.577**	0.503	0.063	0.025	-0.121
A13	Action plans are written down as a set of activities to be accomplished and how they are to be accomplished (means) within a given timeframe.	**0.536**	0.471	0.263	-0.003	-0.228
A14	There are cross-departmental working relationships.	**0.676**	0.132	0.170	0.002	-0.143
A15	Budgets are prepared in line with departments' action plans.	**0.658**	0.220	0.178	0.024	-0.140
A16	There are mechanisms to seek feedback on the strategy and its implementation from all stakeholders.	0.452	**0.506**	0.167	0.071	0.191
A17	There is a formal performance review process and reports are produced.	**0.521**	0.494	0.058	-0.066	-0.074
A18	Employees work as individuals and not in teams.	-0.061	0.063	0.141	**0.793**	0.132
A19	Departmental plans are cascaded to individual level so as to enhance accountability to deliver results.	0.270	0.205	0.036	0.463	**0.542**
A20	Goals and objectives are not commonly understood by departments and individual staff.	-0.032	0.050	-0.007	**0.856**	0.094
A21	Strategy implementation has been affected by a lack of adequate resources.	0.047	0.061	0.095	**0.703**	-0.201
A22	Strategies developed are evaluated to assess the most appropriate information system to support its implementation.	0.207	**0.506**	0.457	0.202	0.070
A23	There are sufficient staff with required skills to implement strategies.	0.163	0.375	**0.554**	-0.019	0.376
A24	Information about developments and changes are communicated to all levels in a timely fashion.	0.384	0.327	**0.566**	-0.023	0.093
A25	There are efforts to build cohesive and high- performing teams.	**0.717**	0.208	0.311	0.001	0.022
A26	Resources required to implement a strategy (e.g., people, financial, and equipment) are assessed and translated into a budget before implementation can start.	**0.655**	0.144	0.155	0.129	0.221
A27	Long-term goals are being translated into short-term measurable objectives.	0.483	0.406	0.094	0.207	**0.514**
A28	There is adequate staff with required skills, competencies and experiences to support strategy implementation.	**0.533**	0.281	0.213	0.083	0.473
A29	Control systems incorporate feedback and opportunities to devise and revise strategies as well as performance measures.	**0.617**	0.343	0.122	0.099	0.292
A30	Most middle-level managers have adequate understanding of the strategy.	**0.717**	0.165	0.161	-0.032	0.139
A31	Performance appraisal and measurement of strategic progress are based on the existence of measurable performance criteria.	**0.724**	0.321	-0.048	0.025	0.184

Table 2 to be continued

A32	There is a system of reviewing financial performance and customer satisfaction	**0.756**	0.207	0.160	-0.066	0.119
A33	There is no conflict over team goals.	0.072	0.157	**0.691**	0.224	-0.005
A34	Key issues, elements, and needs of a strategy are translated into objectives, action plans, and scorecards.	0.198	**0.660**	0.371	0.173	0.099
A35	Key tasks related to strategy implementation are well-defined and understood by employees.	**0.689**	0.268	0.293	0.023	0.037
A36	There is more emphasis on human aspects and less on organisational and systems-related factors.	0.083	0.163	0.469	**0.511**	-0.072
A37	Frequent vertical communication is encouraged.	**0.687**	0.123	-0.046	0.200	0.265
A38	There are deliberate efforts to communicate strategies to all levels.	**0.783**	0.196	-0.012	0.026	0.161
A39	There are suitable and up-to-date information systems in place to support strategies.	0.176	**0.736**	0.194	0.133	0.118
A40	Information systems are aligned to drive strategy implementation.	0.181	**0.745**	0.074	0.111	0.278

Notes. Loadings of 0.5 and above were considered significant; Extraction Method: Principal Component Analysis; Rotation Method: Varimax with Kaiser Normalisation; a. Rotation converged in eight iterations.

Thus, according to the empirical grouping, operational factors significant to the level of strategy implementation were reduced from eight theoretical factors to five, namely, operational planning and monitoring, management control systems, people-strategy fit, teamwork, and effective communication. The fact that items that were expected to measure operational factors loaded onto five different factors, with values greater than 0.2, demonstrates sufficient discriminant validity for further analysis. These factors with corresponding items will be subjected to regression and correlation analysis in subsequent sections. Table 3 shows factor loadings for the perceived outcomes of effective strategy implementation.

Table 3

Factor Loadings for Outcome Factors

Items	Outreach Factor 1	Financial sustainability Factor 2
B1	0.147	0.876
B2	0.467	0.551
B3	0.717	0.317
B4	0.690	0.111
B5	0.763	0.256
B6	0.844	0.073
B7	0.531	0.294
B8	0.734	0.179
B9	0.736	0.241
B10	0.155	0.770

Table 3 indicates that, seven items (B3, B4, B5, B6, B7, B8, and B9) loaded onto factor one and were referred to as outreach. Further, three items (B1, B2, and B10) loaded into factor two referred to as financial sustainability. The factor loadings provide sufficient evidence of convergent validity as all the items loaded onto two distinct factors with relatively high loadings.

Reliability testing of the Measuring Instrument

Table 4

Shows the Reliability Results of the Measuring Instrument

Variables	Cronbach's alpha
Operational planning and monitoring (OPM)	0.943
Management control systems (MCS)	0.925
People-strategy fit (P)	0.655
Teamwork (TW)	0.747
Effective communication (EC)	0.600
Dependent	
Level of strategy implementation (LS)	0.949
Outcome	
Outreach (O)	0.0.243
Financial sustainability (FS)	0.043

According to Hair, Black, Babin, Anderson, and Tatham (2006, p. 244), Cronbach's alpha values ranging from 0.6 to ≥ 0.9 are considered moderate to excellent, respectively. The result shows that the measuring instrument is reliable in that it can generate the same results if repeated. The items are consistent in measuring a single latent variable. Thus, the results generated using the instruments can be trusted.

Descriptive Statistics

Descriptive statistics from Table 5 show that respondents were not neutral on the factors that influence strategy implementation, outcomes and measurers to the level of strategy implementation. From the descriptive statistics, respondents were in agreement with all the factors, as responses returned a mean range of 3.4 to 4.0. Table 5 shows the mean and standard deviation values of variables which were obtained from the empirical study.

Table 5

Descriptive Statistics for Individual Variables Used

Variables	Mean	Standard deviation
Operational planning and monitoring (OPM)	3.9400	0.84386
Management control systems (MCS)	3.9967	1.18095
People-strategy fit (P)	3.6600	0.85645
Teamwork (TW)	3.4600	0.84307
Effective communication (EC)	3.6867	0.82710
Outreach (O)	4.0167	0.83589
Financial sustainability (FS)	3.8433	0.96361
Level of strategy implementation	3.7600	0.76443

Table 6 shows the perceived level of strategy implementation of MFOs in Kenya

Table 6

Level of Strategy Implementation

Level of strategy implementation	Frequency	Valid (%)
Low: Less than 40% of strategies implemented on time	58	19
Moderate: 41-70% of strategies implemented on time	141	49
High: 71% and more of strategies implemented on time	96	32

From the above finding, management perceived the level of strategy implementation in MFOs in Kenya as moderate to high.

Regression Analysis Results

This section indicates the regression analysis results of the study.

Management perception on the influence of Operational process factors on level of strategy implementation. Table 7 shows there is a strong linear positive relationship between operational factors and the level of strategy implementation (b = 0.702, p < 0.000). The results show that operational factors have a more significant positive linear relationship with level of strategy implementation that the other two factors.

Table 7

Influence of Operational Process Factors on Level of Strategy Implementation

Coefficients[a]						
Model		Unstandardised Coefficients		Standardised Coefficients	*t*	*p*-value
		B	Std. error	Beta		
1	(Constant)	-0.141	0.197		-0.714	0.476
	Operational factors	0.702	0.050	0.599	13.967	0.000

Note. [a] Dependent variable: level of strategy implementation.

Table 8

Influence of Level of Strategy Implementation on Outcome Factors

Correlations				
		LS	Outreach (O)	Financial sustainability (FS)
LS	Pearson correlation	1	0.490**	0.746**
Outreach (O)	Pearson correlation	0.490**	1	0.472**
Financial sustainability (FS)	Pearson correlation	0.746**	0.472**	1

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

Influence of level of strategy implementation on outcome factors. Table 8 shows that respondents agreed that improved levels of strategy implementation affects the financial sustainability and outreach of MFOs. It indicates that there is a significant relationship between the level of strategy implementation and financial sustainability of MFOs (b = 0.746). This means that respondents could attribute the level of strategy implementation to financial sustainability of the MFOs. Further, there is a significant relationship between the level of strategy implementation and the outreach of MFOs (b = 0.490).

Influence of operational planning and monitoring on the level of strategy implementation. Table 9 indicates that there is a positive significant relationship between operational planning and monitoring and level of strategy implementation (R = 0.843). Further, the relationship is significant (p-value of 0.00). In addition, R^2 = 0.690 which means that about 69% of the variability in the model can be explained by this factor. This implies that manager's perceived operational planning and monitoring which ensure that the strategy is broken down to manageable units and implementation is monitored, as an important factor to achieve a high level of strategy implementation.

Table 9

Regression analysis: Influence of operational planning and monitoring on the level of strategy implementation

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.843[a]	0.710	0.690	0.42189	0.710	35.126	17	244	0.000

Note. [a] Dependent variable: level of strategy implementation.

Influence of management control systems on the level of strategy implementation. Table 10 indicates that there is a positive significant relationship between management control systems and level of strategy implementation (R = 0.710). Further, the relationship is significant (p-value of 0.00). In addition, R^2 = 0.479 which means that about 48% of the variability in the model can be explained by this factor. This implies that managers perceived management control systems as critical to the strategy implementation.

Table 10

Regression Analysis: Influence of Management Control Systems on the Level of Strategy Implementation

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.710[a]	0.504	0.479	0.56025	0.504	20.527	13	263	0.000

Note. [a] Correlation is significant at the 0.01 level (2-tailed).

Influence of people-fit factor on the level of strategy implementation. Table 11 indicates that there is a positive relationship between the people factor and level of strategy implementation (R = 0.535). Further, the relationship is significant (p-value of 0.00). In addition, R^2 = 0.278 which means that about 27.8% of the variability in the model can be explained by this factor. This implies that respondents perceived having staff with right set of skills as critical to strategy implementation.

Table 11

Regression Analysis: Influence of People on the Level of Strategy Implementation

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.535[a]	0.286	0.278	0.65153	0.286	38.684	3	290	0.000

Note. [a] a constant; equals the value of Y when the value of X=0. b or Beta, the coefficient of X; the slope of the **regression** line; how much Y changes for each one-unit change in X.

Influence of teamwork on the level of strategy implementation. Table 12 indicates that there is a positive relationship between teamwork and level of strategy implementation (R = 0.280). Further, the relationship is significant (p-value of 0.00). In addition, R^2 = 0.066 which means that about 0.6% of the variability in the model can be explained by this factor. Although the relationship is positive, it is noted to be weak.

Influence of effective communication on the level of strategy implementation. Table 13 indicates that there is a significant positive relationship between communication and level of strategy implementation (R = 0.695). Further, the relationship is significant (p-value of 0.00); in addition, R^2 = 0.478 which means that about 47.8% of the variability in the model can be explained by this factor. Thus, respondents perceived communication in the organisation as a key factor to achieve a high level of implementation.

Table 12

Regression Analysis: Influence of Teamwork on the Level of Strategy Implementation

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.280[a]	0.078	0.066	0.73482	0.078	6.130	4	288	0.000

Note. [a] a constant; equals the value of Y when the value of X=0. b or Beta, the coefficient of X; the slope of the **regression** line; how much Y changes for each one-unit change in X.

Table 13

Regression Analysis: Influence of Effective Communication on the Level of Strategy Implementation

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.695[a]	0.484	0.478	0.55648	0.484	89.594	3	287	0.000

Note. [a] a constant; equals the value of Y when the value of X=0. b or Beta, the coefficient of X; the slope of the **regression** line; how much Y changes for each one-unit change in X.

Influence of level of strategy implementation on outreach of MFOs. Table14 indicates that there is a significant positive relationship between outreach in MFOs and level of strategy implementation (R = 0.689 and R^2 = 0.461). Further, the relationship is significant (p-value of 0.00). This implies that the respondents could relate the level of strategy implementation to the outreach achieved by the MFOs. It also means that for effective outreach, the MFOs need to improve the level of strategy implementation.

Influence of level of strategy implementation on financial sustainability of MFOs. Table 15 indicates that there is a significant positive relationship between financial sustainability of MFOs and level of strategy implementation (R = 0.464 and R^2 = 0.207). Further, the relationship is significant (p-value of 0.00). This implies that the respondents could relate the level of strategy implementation to the financial sustainability of the MFOs. Thus, for MFOs to be financially sustainable they would need to formulate and implement quality strategies.

Table 14

Regression Analysis: Influence of Level of Strategy Implementation on Outreach of MFOs

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change Statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.689[a]	0.475	0.461	0.56812	0.475	33.114	7	256	0.000

Note. [a] a constant; equals the value of Y when the value of X=0. b or Beta, the coefficient of X; the slope of the **regression** line; how much Y changes for each one-unit change in X.

Table 15

Regression Analysis: Influence of Level of Strategy Implementation On Financial Sustainability of MFOs

Model		R	R Square	Adjusted R Square	Std. error of the estimate	Change statistics				
						R Square Change	F Change	df1	df2	Sig. F Change
Dimension	1	0.464[a]	0.215	0.207	0.68494	0.215	26.410	3	289	0.000

Note. [a] a constant; equals the value of Y when the value of X=0. b or Beta, the coefficient of X; the slope of the regression line; how much Y changes for each one-unit change in X.

Correlation Analysis Results

A correlation analysis was conducted to show whether a relationship exists between two variables and to show the overall strength of the relationship (Hair et al. 2006, p. 367). A statistical correlation coefficient (*r*) takes values which are between -1.0 and +1.0 (R. B. Burns & R. A. Burns, 2008, p. 343). Table 16 is used to assess the correlation coefficients of the individual variables in testing the hypothesis. Table 16 shows correlation between the dependent and independent variables. It is expected that the independent variables should not be too highly correlated, and a value of 0.5 was used to check for multicollinearity.

Table 16

Correlation Matrix of the Individual Variables of the Study

Pearson correlation	LS	OPM	MCS	P	TW	EC	FS	0
LS	1.000	0.626	0.384	0.452	0.219	0.632	0.314	0.217
OPM	0.626	1.000	0.359	0.365	0.152	0.514	0.223	0.145
MCS	0.384	0.359	1.000	0.349	0.149	0.365	0.210	0.314
P	0.452	0.365	0.349	1.000	0.352	0.430	0.048	0.228
TW	0.219	0.152	0.149	0.352	1.000	0.356	0.298	0.284
EC	0.632	0.514	0.365	0.430	0.356	1.000	0.367	0.670
FS	0.314	0.223	0.210	0.048	0.298	0.438	1.000	0.453
O	0.217	0.145	0.314	0.228	0.284	0.469	0.453	1.000

All the variables returned a positive relationship or correlations with each other

Conclusions and Recommendations

From the literature review, there is a consensus that the best-made strategies are worthless if they are not implemented. Failed strategies create a negative precedence in the organisation, such as lower employee morale and loss of trust in management. Organisations derive numerous benefits from effective implementation of strategies. Some of the benefits are competitive positioning of an organisation in the market place, a long-term perspective of an organisation, goals set to bear results, increased employee morale, and a unifying purpose across the organisation. Despite the numerous benefits accrued from effective implementation of strategies, there is agreement that implementing a strategy is more difficult than formulating one, and there is limited literature or models focusing on strategy implementation to support managers in overcoming the challenges in implementation. Researchers have cited numerous factors that need to be addressed to improve the level of strategy implementation. The factors cited are broad and strategy implementation is affected by numerous factors.

From literature review, the level of strategy implementation affects the performance of an organisation and its competitiveness. In this study, financial sustainability and outreach of MFOs were considered as key performance indicators that would be affected by the level of strategy implementation.

The following conclusions are drawn from the empirical results:

- The operational process factors have a more significant positive linear relationship with level of strategy implementation than the content and context factors. This means organisations need to give attention to these factors more than others. This finding a firm that a poorly crafted strategy well executed produces better results than a well-crafted strategy that is poorly implemented if the operational process factors are well managed.
- The operational process factors that are significant to the level of strategy implementation include:

operational planning and monitoring, management control systems, people-strategy fit, teamwork and effective communication. The initial eight theoretical factors were reduced to five after factor analysis meaning that the five are the most significant and management should focus on them.

- There is strong significant relationship between levels of strategy implementation and planning and monitoring factor that ensure strategy is broken down to manageable units and implementation is monitored, to achieve high level of strategy implementation.
- Management perceived management control system factor to have a significant relationship with the level of strategy implementation as the relationship was significant.
- The alignment of the right people (skills , experience, and attitudes) needed to implement a new strategy is significant to its success and level of strategy implementation
- Building strong performing teams at work is significant to the implementation of the strategy and determines the extent to which strategy can be implemented.
- Effective internal communication in an organisation is significant to the success of strategy implementation. This means organisations need to establish internal communication systems to ensure strategy is communicated in simple language at all levels and occasionally reviewed
- The level of strategy implementation has an influence on the performance of MFOs as measured by financial sustainability and the level of outreach. This means organisations must achieve high level of strategy implementation to improve their performance and competitiveness.
- The level of strategy implementation has a positive influence on the level of MFOs outreach. This means MFOs require improving the level of strategy implementation to increase their outreach to the SMEs and the poor.
- The level of strategy implementation has a positive influence to the financial sustainability of MFOs. Since financial sustainability of MFOs is critical to their growth and survival, management require focusing on addressing broad factors that affects implementation.
- There are various other factors that influence the level of strategy implementation and the management need addressing these multiple factors to improve on the level of strategy implementation

The following are some recommendations and suggestions for enhancing the level of strategy implementation in MFOs.

Recommendations for Improving the Level of Strategy Implementation in MFO's

- The management of MFOs should keenly focus on the various operational process factors since they are most significant to strategy implementation. Apart from the five factors identified in this study, management should seek to address other factors as well.
- Although operational process categories of factors are considered most critical according to this study, there is need for management to address content and context factors as well.
- For effective implementation of the strategy, there is need for the management to break down the strategy into small parts by use of operational plans for departments that should be regularly monitored. Additionally, cascading the strategy to all levels is critical to its implementation and Balance scorecard tool could be used to hold individuals and departments accountable to deliver short-term targets.
- Management of MFO should establish a system to review departmental and individual targets and assess financial returns and such a system should be linked to performance management system.

- Internal and external environment of the business environment should be regularly monitored to identify factors that might trigger the need to review strategy to enhance its relevance and competitiveness. MFOs should ensure such review processes are in place.
- The management of MFOs should focus on building high performance teams for successful implementation of strategy. Teambuilding activities should be planned for and executed.
- After developing a new strategy, MFOs should assess the required people in terms of: number, skills, experiences, and attitudes and align the current staff to these requirements. Where there are shortages of the right staff, management is expected to make decisions that might include: recruitment of new staff, separation of some staff and redeployment of staff in different sections among others.
- Communication is the lifeline of effective strategy implementation and management should ensure an efficient communication system is in place.
- There is need to estimate resources required by a new strategy , make the resources available and constantly measure returns from the investment
- Management of MFOs should ensure performance targets are set in the strategy, such as financial and outreach among others so as to assess the extent to which level of strategy implementation influence the performance indicators set.
- Management of MFOs need to use management control models/tools, such as balance scorecard and dashboards to improve the level of strategy implementation by translating long term plans into shorter plans and closely monitoring the results of implementation.

Limitations of the Study

This study considered only two performance indicators of effective strategy implementation, namely outreach and financial sustainability. It is recommended that future research consider using other performance indicators, such as competitiveness and innovation. Only 12% of the study respondents were CEOs and 88% were managers. Future research may consider increasing the participation of CEOs since they have the overall responsibility of strategy implementation and this might yield different results.

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