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Responses of Micro Finance Institutions in Kenya to the Turbulent Business Environment

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Abstract
Purpose: Environmental changes have serious economic effects and are of great concern for organizations that would wish to be ahead of competition. Environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. The study sought to gain a better understanding of the responses of MFIs to the challenges emanating from the turbulent business environment that affect MFIs, both positively and negatively and the factors that influence these responses, which are critical to their outreach and sustainability.**Methods:** The focus of the study was the MFIs that are registered members of the Association of Micro Finance Institutions (AMFI). By June 2013, AMFI had a total membership of 17 Micro Finance Institutions and the researcher undertook census survey of all the 17 MFIs . Responses to various issues of concern were collected through structured questionnaires, which were administered to the MFIs in Nairobi and its environs by hand delivery and picked up on completion. Further, the researcher conducted a comprehensive literature review of materials relevant to the study, whose sources included various websites, books, journals and local daily newspapers and reports obtained from the various MFIs. Out of the 17 questionnaires sent out, 16 were returned completed, a 94 per cent response rate. The information gathered was analyzed using the Statistical Package for Social Science (SPSS), presented and discussed as per the objectives and research questions of the study.**Results:** Findings of the study indicate that environmental changes indeed have serious economic effects and are of great concern for organizations that would wish to be ahead of competition. If ignored, the changes in the environment can ultimately compromise an MFI's operations, profitability, and long-term viability. Thus, MFIs, like other types of businesses, must perform some critical analysis and planning to mitigate the impact that the changes have both on the MFIs target market and on their own operations.
Keywords: Microfinance institutions, turbulent business environment.

LIST OF ABBREVIATIONS

AMFI	Association of Micro Finance Institutions
ASCRAS	Accumulated Savings and Credit Associations
CBK	Central Bank of Kenya
CGAP	Consultative Group to Assist the Poor
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
MFIs	Micro Finance Institutions
NBFIs	Non-Banking Financial Institutions
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Co-operative Societies
SMEs	Small and Micro Enterprises
UN	United Nations
US	United States of America
WTo	World Trade Organization

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1 INTRODUCTION

1.1 Background of the study

Issues related to environmental changes tend to evoke an image of concern for organizations that would wish to be ahead of competition. Yet, with the turbulent business environment in which they have to operate, it is given that the changes have serious economic effects among the general population as well. This includes staff as well as (potential) clients of organizations, the corporate sector and donor organizations operating in Kenya. The changes affect all people and all businesses and can seriously hamper the operations of many businesses, even those with substantial resources. MFI clients, and the institutions that serve them, are particularly susceptible given the limited resources that the poor have to cope with any major financial crisis.

The changes have an influence on the staff, clients, and the institutions' portfolio, and can create numerous pressures on an institution trying to maintain or achieve financial and operational self-sufficiency. If ignored, the changes in the environment can ultimately compromise a Microfinance institution's (MFI's) operations, profitability, and long-term viability. Thus, MFIs, like other types of businesses, must perform some critical analysis and planning to mitigate the impact that the changes have both on the MFI's target market and on its own operations.

In general, we can say the changing global context has been characterized by three key trends: globalization increasing inequality and insecurity; complex political emergencies; and continuous call for international co-operation to address these changes, especially by reforming global institutions (Edwards *et al.,* 2000). Glendey (2000) asserts that organization's microenvironment consists of nonspecific aspects in the organization's surroundings that have the potential to affect the organization's strategies. When compared to a firm's task environment, the impact of macro environmental variables is less direct and the organization has a more limited impact on these elements of the environment. Macro environmental variables include Political-Legal, Economic, Socio-Cultural, and Technological. A firm considers these variables as part of its environmental scanning to better understand the threats and opportunities created by the variables and how strategic plans need to be adjusted so the firm can obtain and retain competitive advantage.

The changes themselves are a result of both natural occurrences and human action, the latter being, in turn, humankind's response to its vision/dreams and aspirations or response to the external environment (both proximate and global). Therefore, change is inevitable and the need to respond to the changes in the national and global environment derives from this inevitability. The inevitability is also derived from the fundamental process of enhancement of humankind's and organizational capacity for survival, that has recently been compounded by an unstoppable process called globalization – "a process of rapid global economic integration driven by liberalization of trade, investment and capital flows, as well as by rapid technological change and the information revolution (Oxfam 2000). Governments of developing countries have no control on global governance. International or global governance is a monopoly of the U.N, the World Bank, IMF, and WTo. This essentially means that it is a monopoly of the G8-the club of the rich industrialized countries.

Over the past few years, MFIs in many countries have begun implementing changes to help them mitigate the impact of the turbulent business environment. These changes have required significant buy-in at high levels of the organization, analysis of the institution and its clients, and the foresight and strategic planning to implement new activities that will strengthen the MFI s performance in this difficult environment. Institutions have had to look critically at their client base, their external environment, their risk management strategies, their trends in their financial performance, the appropriateness of their products and services, and their staff and the trends related to staff productivity and expense.

The Government of Kenya recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households and SMEs is critical to poverty alleviation. Therefore, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system of Micro Finance in the country has been developed via the proposed Deposit Taking Micro Finance Bill. In drafting the Bill, the Government has consulted with stakeholders to get their views on the best way to create the required enabling environment for the Micro Finance sub-sector. In addition, full-fledged Micro Finance units have been established in the Ministry of Finance (the Treasury) and the Central Bank of Kenya to formulate policies and procedures to address the challenges facing Micro Finance Institutions, especially in the rural areas, and to build a database to facilitate better regulation and monitoring of their operations.

To date, the restructuring of the banking system and the establishment of strong regulatory enforcement mechanisms remain on the unfinished agenda. As a result, the banking system remains fragile and vulnerable to the extremely high and growing ratio of non-performing loans (41% in 2001 up from 25% in 1998 and 20% in 1997) (IMF 2001b, Oxan 1998). These loans are held predominantly by public banks, which have traditionally given credit priority to parastatals, irrespectively of sound financial practice. In their response to the changing national and global environment, MFIs have certain fundamental drawbacks, for instance, as relates to the poverty situation of their clientele, which means lack of internally generated resources and hence dependence on some of the very external agencies and institutions responsible for the unfavorable world economic order.

Understanding the impact of environmental changes on the organizations could help practitioners in the field ensure that corporations, MFIs and donors develop rational strategies to effectively respond. This research project will look at the process resulting in the decision to pro-actively respond to the changes in the business environment, the strategies that have been developed by MFIs and the challenges and ethical dilemmas faced. This study sought to gain a better understanding of the ways in which MFIs have responded to challenges emanating from the turbulent business environment that affect MFIs, both positively and negatively and the factors which influence these responses.

1.2 Statement of the problem

Over the past four decades Micro Finance programs have increasingly been established in a number of countries as a means to mitigate the key constraint of sustainable access to financial resources faced by micro and small enterprises. Micro Finance programs extend financial services ranging broadly across savings, loans, payment services, money transfers, and insurance to enterprises generally owned by poor and low income households, a group long thought not to have the ability to save nor to utilize credit productively and repay loans at non-subsidized interest rates (Yaron 1992).

Otero and Rhyne (1994) argue that armed with a better understanding of the Micro Finance field and the presence of a number of successful Micro Finance Institutions (MFIs) worldwide, international development and finance institutions and non-governmental organizations are increasingly resorting to the provision of Micro Finance services. Micro Finance services, especially credit, are seen to facilitate the resumption and reconstruction of local business activities and enable the most disadvantaged sector to play an important role in jump-starting the economy. However, Micro Finance practitioners find themselves in challenging situations as they are pressured to respond to environmental changes, which include short-term political and economic goals that may not be consistent with their long-term sustainability. Recognizing that environmental changes pose threats to the sustainable operations of an MFI, they face two competing scenarios: that MFIs are able to adapt their strategies, systems, introduce new products, and manage their operations to take advantage of the resources that may be available for coping with or recovering from the changes so as not to compromise their long-term sustainability; and that MFIs may be severely damaged by the negative effects of the environmental changes on the conditions for Micro Finance and on their operations so that other grant-based programs would be preferable to assist the poor in the changed situations.

The scenario in Kenya today is that many commercial banks, which initially targeted the big customers, have designed products that appeal to the market that was a preserve for the MFIs. This has forced many MFIs to convert into commercial banks so as to effectively compete in the already crowded market. The trend is worrying as fewer MFIs are being left to cater for the financial services needs of the poor in Kenya. There is also insufficient statistics and empirical data on the responses of Micro Finance Institutions to the turbulent business environment in Kenya and this could have resulted to some of them either turning into banks or quitting the business all together.

Studies on Micro Finance Institutions have focused on themes such as: Responses of MFIs to HIV/AIDS crisis in Kenya (Ndiritu, 2006); Differentiation strategies used in MFIs in Kenya (Wanjiku, 2005); A review of government policies for promotion of MSEs in Kenya (Ronge *et al.,* 2002); Inability of people with disabilities in Kenya to access credit and savings products of MFIs and Reducing vulnerability: the demand for Micro insurance with no specific attention to strategic responses to challenges faced by Micro Finance Institutions as a result of the turbulent business environment (Musotsi, 2005). The findings of this study have therefore attempted to fill the existing information gap.

1.3 Objectives of the study

(i) To assess the responses which have been employed by MFIs to cope with changes in the business environment.

(ii) To examine the factors that influence the responses employed by Micro finance Institutions in Kenya to cope with changes in the business environment

1.4 Significance of the Study

The findings of this study, it is hoped, will be beneficial to the following among others: (i) The stakeholders, who include the Micro Finance Institutions will gain an understanding of the challenges emanating from changes in the environment and possible strategic responses to remain competitive; and (ii) Academic researchers: the study will contribute to the existing body of knowledge in the area of challenges facing micro finance institutions as a result of changes in the business environment.

2.0 LITERATURE REVIEW

2.1 The concept of strategy

Johnson and Scholes (1999) defined strategy as “the directions and scope of an organization over a long term, which achieves advantage for the organization through its configuration of the resources within a changing environment, to meet the needs of the markets and fulfill stake holders’ expectations”. Strategy is described as creating a fit between the external characteristics and internal organization conditions to solve a strategic problem. The problem occurs when there is a mismatch between internal characteristics of the organization and the opportunity existing in the external organization. Ansoff and Mc Donnel (1990) describe strategic management as the process through which a firm manages relationships with the environment in which it operates. It consists of strategic planning, capability planning and management of change. Strategic management therefore is a continuous activity that enables strengths while minimizing the impact of threats posed by the environment in the light of the organization's weaknesses. Quinn (1980) describes strategy as a plan and pattern that integrates an organization's major goals, policies or patterns and helps marshal and allocates resources into a unique and viable posture based upon its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by the intelligent opponents.

2.2 Environmental changes

Aosa (1998) notes that as the organization environment changes, it is necessary that the firm continuously adopts its activities and internal configurations to reflect the new external situations; failure to do this endangers the future success of the organization. (Kiptugen, 2003) further noted that strategic responses that are well developed and appropriately adopted are powerful tools for acquiring and sustaining a competitive advantage. Such weapons have to be constantly adopted or even transformed to achieve the desired advantage.

Jones and Scholes (1999) note that environment encapsulates different influences. It is quite difficult to make sense of this diversity. They view future environment as likely to be different from the past. Having scenarios of possible futures would in turn help managers to consider the different ways in which strategies might need to change depending on how the environment behaves. The external environment influences an organization's strategic development by creating opportunities and threats. Successful strategies rely heavily on the organization having the strategic capability to perform at the level that is required for success. An understanding of the strategic capabilities is important as it assists an organization to determine whether its strategies continue to fit the environment in which it operates and the threats and opportunities that exist. Strategic capability is about providing products or services that customers or management will value in the future.

As the environment changes, firms must change strategies to survive. With each new strategy, new capabilities are developed. The adoption of dynamic perspective on strategy alignment necessitates a shift in emphasis towards dynamic capabilities. Dynamic capabilities describe an approach to strategy that tries to identify the dimensions of firm specific capabilities that can be sources of advantage and to explain how competencies and resources can be developed, deployed and protected. The operating environment involves factors in immediate situations that may provide many of the challenges a particular firm faces in attempting to acquire needed resources or in striving to profitable market its goods and services. Among the most prominent of these factors are a firm's competitive position, customer profile, reputation among suppliers and creditors. The operating environment differs from remote environment in that the businesses can be much more proactive in strategic planning than is the case with remote factors.

Pearce and Robinson (2002) argue that even if an organization has no outstanding competencies and capabilities, managers still must tailor strategy to fit the organization's particular resources and capabilities. They identify three levels of strategy namely corporate level, business level and functional level. The corporate level involves the setting of objectives and forming strategies at the corporate level, usually by the board of directors and the Chief Executive Officer. Decisions at this level are characterized by greater risk, cost and profit potential, as well as longer time horizons and greater need for flexibility. It includes decisions such as choice of business, dividend policies and priorities for growth. The business level involves translating general statements of direction and intent developed at the corporate level into concrete, functional objectives and strategic business units. The business and corporate managers carry this out. Managers of products, geographic and functional areas, carry out the functional level. They are the implementers and executioners of a company's strategic plans. It involves the development of annual objectives and short term strategies in areas such as production, operations, research and development, marketing, finance ad accounting. Treece *et al.* (1997) argue that the organizations' routines play a major role in creating dynamic capabilities. The routines provide the ability to build internal and external competencies in order to face rapidly changing environments. Capabilities are embedded in the routines of organizations and are not easily documented as procedures and thus are difficult for competitors to replicate.

2.3 Factors that influence organizational responses to changes in the business environment

MFIs are currently facing a more demanding environment: competition for strategic resources has gradually become more severe. Thus, organizational strategies are implemented in order to achieve a satisfying alignment with this evolving environment. Indeed, they implement organizational adjustments that can be based on a broad spectrum of actions: ability to take advantage of opportunities resulting from environmental change, attempts to reconvert the activity, development of transversal relations among actors, responsibilization of administrative and staffs, attention devoted to strategic resources, formulation of an ambitious strategy, and involvement in strategic alliances.

A number of studies, considered as standard in the Strategic Management literature, identify major strategic behaviors allowing organizations to succeed. Porter's (1980) typology is still the advantage. Porter's model mixes two dimensions: the major asset used by the firm to promote its product (low cost or differentiation)

and the size of the market tackled by the firm (broad or focused). However, Porter's model – empirically tested by Hambrick (1983a), and Hofer and Schendel (1978) among others – is not well suited to examine the strategic choices made by MFIs for which the cost control cannot alone lead to an enforceable strategy (because MFIs cannot offer low-quality low-cost services). In a less market-orientated perspective, Miller and Friesen (1978) empirically identify successful and unsuccessful archetypes of firms according to their environmental, organizational and strategic characteristics. The strategy is described by the way strategic decisions are made.
Miles and Snow (1978) model shown in table 2.1 below shows how organizations choose specific strategies that allow them to realize an adequate fit with their environment. The model includes organizational and strategic variables that describe the alternative ways used by various organizations in order to adapt to their environment. Secondly, Miles and Snow's study is part of a stream of research that classifies the strategic responses given by organizations to changes in the environment.

Table 2.1: Miles and Snow's typology

Category	Characteristics
Defenders	Exhibit poor strategic ambition, eager to evolve in a stable market environment
Prospectors	Continuously seek new opportunities in their environment, able to anticipate their environment's evolution
Analyzers	Study their environment very carefully in order to adapt their strategy to the characteristics of each interesting sub- environment
Reactors	Do not formulate a consistent response to their environment notably because of a lack of anticipating ability

Source: Miles and Snow strategic archetypes in banking'. Strategic Management Journal 20/4: 161-168
Using a psychological analysis of leadership styles, Zaleznik and Kets de Vries (1975) depict organizational strategies according to the firm's behavior towards change (see table 2.2). This behavior can be made of anticipation or of reaction to change, and reveals a degree of aversion to disruptive features. One of the specificities of Zaleznik and Kets de Vries' typology is to simultaneously study organizational strategies and leadership styles. Indeed, the organizational strategies they identify correspond to leadership strategies. This means that the leader's personality tends to favor one of the three organizational strategies. The right matches between individual orientations and organizational strategies lead the firm to the highest performance level.

Table 2.2: Zaleznik and Kets de Vries' typology

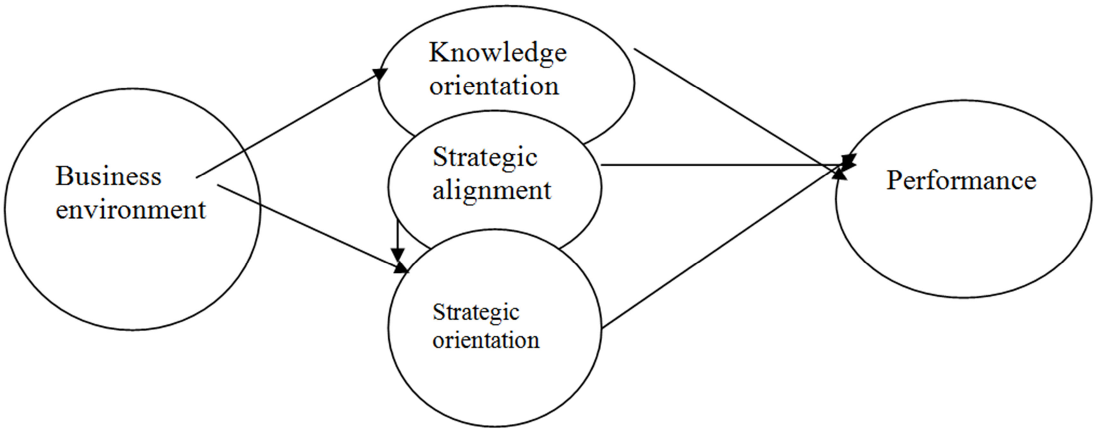
Category	Characteristics
Homeostatic	Highly reluctant to change that must be avoided by all means
Meditative	Changes occur but are a mere reaction to environmental pressure
Proactive	▪ Do not avoid changes and consider them as intentional and thus positive features ▪ Creatively use their own resources in order to modify their environment in a suitable way and to produce major innovations

Source: Zaleznik, A., and M. Kets de Vries (1975). Power and the corporate mind. Houghton Mifflin.
Overall, Miles and Snow (1978) and Zaleznik and Kets de Vries (1975) offer complementary perspectives on organizations' strategic behavior towards change. Thus, they represent two relevant benchmarks for the purpose of our study that is, identifying and analyzing the responses formulated by MFIs in a turbulent business environment.

2.4 Responses to changes in the environment

After identifying and analyzing business risks associated with changes in the business environment, management decides how these risks should be managed. This requires comparing the costs of reducing business risks against the costs of potential loss from risks. Hofer and Schendel (1978) argue that there are four categories of possible responses to business risks - accept, transfer, avoid, and reduce. The first three are passive responses to risk while the last response is active. The four categories may be defined as follows: (1) ***Accept:*** Accepting a business risk means doing nothing to avoid it. This response is based on a conscious decision that the costs of other responses outweigh the potential benefits or that the risk is acceptable; (2) Transfer: Transferring the business risk to another party alleviates management's responsibility for managing it. Examples of this response are buying insurance and outsourcing; (3) ***Avoid:*** Avoiding the business risk is a decision to change a business objective because no other response can reduce the business risks to an acceptable level in a cost-effective manner; and (4) ***Reduce:*** Reducing the business risk means reducing either the likelihood of its occurrence or the magnitude of its impact. Management usually establishes an effective control environment to reduce business risks.

As the Miles and Snow model essentially is based on the behavioral patterns of an organization when it responds or adapts to changes in the business environment, a measure of the business environment was incorporated in the research model. A scale developed by Ansoff and Sullivan (1993) was adopted as it has been used in a number of studies that have reported reliable results. Ansoff (1965) defines the degree of changeability of environmental challenges as the level of environmental turbulence. The latter is determined by a combination of numerous factors, which include: Changeability of the market environment; Speed of change Intensity of competition; Fertility of technology; Discrimination by customers; and Pressures from governments and .influence groups . The more turbulent the environment the more aggressive must be the firm's response, but common experience shows that some firms take full advantage of the opportunities offered by turbulence and others lag behind. Ansoff and Sullivan developed a strategic success formula (SSF) that is based on the thesis that to optimize a firm's performance, management must align the firm's strategies and capabilities with the state, or turbulence level of the environment. Their model includes 5 levels of environmental turbulence: (1). repetitive: no change; (2) expanding: slow incremental change; (3). changing: fast incremental change; (4). discontinuous: discontinuous predictable change; and (5). Surpriseful: discontinuous unpredictable change. The main elements of the survey are represented in the model below (figure 2.1 below)



Source: Miles R E, Snow CC. 1978. Organizational Strategy, Structure and Process. McGraw-Hill: New York

If management decides to actively reduce risk, it must develop an effective multilevel control environment. The control environment sets the tone of the organization. It provides (or fails to provide) the discipline and structural foundation for all components of control. The control environment also has a pervasive influence on how an organization sets objectives and structures its business activities. A multilevel control environment consists of three elements: strategic, management, and process controls: - (1) Strategic controls refer to those activities within the strategic management process that help management to understand the effect of external and internal factors on the business and strategy. Strategic controls define the environment of risk and control behavior and align the organization with these strategies; (2) Management controls are those activities and elements that must be present in the control system throughout the organization if it is to effectively identify, assess, and react to business risks and attain its objectives. These controls develop from the results of environmental review performed during the strategic planning process; and (3) Process controls are the control activities performed at the process, or function, level. They are normally the responsibilities of process, or functional, owners who ensure that the control activities are in place and meet their objectives. Strategic controls and management controls are implemented at the organization level, while process controls must be implemented for each business process. The acquisition, maintenance, and service of research collections are business processes. Management controls represent the link between the strategic level and process level, as well as among the processes themselves. Effective management control drives effective business risk and control management throughout the organization.

2.4.1 Strategic responses

Pearce and Robinson (1999) argue that strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organization. Strategic responses are concerned with the long-term strategy of an organization involving high investments and embracing the organization as a whole. Strategic responses are usually on a long-term basis. Their implementation takes over one year and the responsibility lies in corporate and business level management. They are company wide and huge amounts of resources are required to enforce them.

Senior (1997) notes that there are various catalysts for organizational change such as restructuring. These catalysts may include the purchase of new IT equipment or systems, business process intensification/ extensions, redesign of group jobs, staff right sizing and subsequent staff cutbacks as well as redundancies. Ansoff & Mc Donnel (1990) note that strategic responses may take many forms depending on the organization's capability and the environment in which it operates. Well-developed and targeted strategic responses are formidable weapons for the firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, marketing, information technology, culture change etc, (Kiptugen, 2003). Ansoff (1965) proposed four strategies for growth which can be neatly summarized in the matrix below: To portray alternative corporate growth strategies, Ansoff (1965) presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoff's matrix is shown in figure 1 below.

Figure 2.2: The Ansoff Matrix - Business

Source: Ansoff HI, Sullivan PA. (1993) Optimizing profitability in turbulent environments: A formula for strategic success for Long Range Planning 26(5): 11-24

The Matrix essentially shows the risk that a particular strategy will expose you to, the idea being that each time you move into a new quadrant (horizontally or vertically) you increase risk. The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy.

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. In fact, some as the "suicide cell" has referred to this quadrant of the matrix. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

2.4.2 Operational responses

Operational responses are targeted at specific departments in the operational level of management. They do not require a huge amount of resources to implement and they are on a short-term basis (usually less than one year). They guide, monitor and evaluate progress in meeting annual objectives. According to Pearce & Robinson (1999), operational controls provide post action evaluation and control over short periods usually from one month to one year.

MFIs, in response to changes in interest rates, which negatively affect their profitability, pass on the additional costs to the clients. In addition, the MFIs reduce loan sizes when faced with reduction in donor funding. The MFIs that had not developed the new product, insurance scheme, stopped lending to clients that were HIV/AIDS positive as their operations were negatively affected. The current and potential clients were sensitized on the need to actively participate in income generating activities instead. Cultural beliefs in many communities prohibit women from participating in income generating activities. The MFIs continuously invested in new ICT by upgrading existing equipment, procuring new equipments and capacity building of their staff. In addition, the clients were sensitized on the need to transact with legally registered MFIs.

2.5 Micro Finance Institutions Concept

Micro Finance was originally associated with innovations such as the Grameen Bank in Bangladesh. However, the term has acquired a broader definition and covers any financial service reaching those excluded from the banking sector and involving small transactions (EC 1998). In summary, Micro Finance refers generally to all types of financial services provided to low-income households and enterprises. Commercial banks traditionally lend to medium and large enterprises, which are judged to be creditworthy. They avoid doing business with the poor and their micro enterprises because the associated cost and risks are considered to be relatively high. Micro Finance Institutions (MFIs) have therefore become the main source of funding SMEs in Africa and in other developing regions. (Central Bank of Nigeria, 2003).

Micro Finance Institutions (MFIs) in Kenya are in the midst of a commercialization process, in which more regulation, more profit orientation and more competition are its essential characteristics. International organizations are encouraging this process and inviting NGOs to join, while the perception of MFIs as profitable businesses has increased (Christen, 2001). Commercialization is characterized, according to Christen, by profitability, competition, and regulation, but at the same time large differences in loan size are observed between regulated and unregulated institutions. But financial institutions must be built on solid foundations to avoid a decreasing rate of repayment or risk of mismanagement. Time, good institutional design, and a favorable business environment are necessary to build efficient financial institutions. These issues raise questions about what role the management of the Micro Finance Institutions can assume and the strategic interventions that can be employed in the wake of the frequent and abrupt changes in the business environment in order to increase outreach, impact, and sustainability of the MFIs.

2.6 Micro Finance Institutions Evolution and development

2.6.1 Evolution of Micro Finance Institutions

The Micro Finance sector is made up of the informal sector, the semi-formal sector, and the formal sector. In each sector there are a variety of providers (EC 1998). Informal Micro Finance is often called the autonomous sector. This refers to institutions created by people themselves, without any external intervention. Examples include indigenous savings and credit mechanisms, personal loans, moneylenders, informal savings groups and small mutual funds. These institutions have no legal status. Semi-Formal Micro Finance is often called the intermediary sector. It covers institutions created to provide financial services to those excluded from or by the banking sector. They are usually the product of outside intervention, with varying degrees of client involvement. Their legal status is highly variable, ranging from temporary NGO projects to Savings and Credit Cooperatives or Unions. The formal Micro Finance institutions are financial institutions that are registered, have a legal status and conform to Government regulations. An organization that has a focus on the provision of Micro Finance services is increasingly called a Micro Finance institution.

2.6.2 Approaches of Micro finance

The main approaches of Micro Finance are the solidarity group, village banking, and individual lending. The vast majority of institutions offering financial services to poor people in the last twenty years have adopted the solidarity group approach (Hulme and Mosley 1996). The Grameen Bank in Bangladesh most famously popularized this approach. Central to it is the formation of self-selected groups of borrowers (usually between four and eight, although the Grameen Bank recommends five). Group members approve each other's loan applications and are jointly liable for the loan of each group member. This form of 'social collateral' is designed to reduce the risks of lending and ensure high repayment rates. Generally, two group members receive loans and when they begin to repay, the next two members are eligible, followed by the fifth group member. Once all group members have repaid, they may proceed to the next cycle and access greater amounts of credit. Village banks are community-managed credit and savings associations. They are established to improve members' access to financial services; build a community self-help group, and help members accumulate savings (Otero *et al.,* 1994).

2.6.3 The Paradigm Shift in Micro Finance

The paradigm shift in Micro Finance presently underway in the developing world is marked by the change from government and donor-funded subsidized credit to sustainable financial intermediation. Institutional micro finance is characterized worldwide by what has been called the 'absurd gap' between demand and institutional supply. Thus, despite the widespread demand for financial services - for both credit and savings facilities - it is estimated that institutional finance is unavailable to about 90 percent of all households in developing countries. This includes most of the poor people in the developing world. (Robinson, 1992).

The primary reasons for the low institutional supply of micro finance demand are: (1) the pervasive misunderstandings about local financial markets that are widespread on the part of many governments, financial institutions, and donor agencies; and (2) the low level of influence in their respective societies of those who constitute the demand. (Boomgard, 1994). Institutional commercial micro finance is an important component of effective social and economic development. However, this is not widely known. Where available, savings services permit people to store wealth and seasonal or temporary excess liquidity safely for future use, and to obtain returns on their assets. Credit services enable the use of anticipated income for present investment or consumption. Commercial institutions supplying micro finance increase the options of the working poor by helping them to decrease risks, to obtain higher returns on investment, to improve management and productivity, and to improve the quality of their lives and those of their dependents.

Within the last decade, a new, sustainable approach to micro finance has been developed by the Bank Rakyat Indonesia (BRI), and has been demonstrated successfully throughout Indonesia, the world's fourth largest country. The shift there from government-subsidized credit delivery to profitable financial intermediation at the local level has enabled, for the first time, the demand for micro finance to be met on the large scale. Derived from supply-leading finance theory, the 'old paradigm' of subsidized credit for lower-income borrowers in rural areas was well entrenched in Indonesia during the 1970s, as in most of the developing world. Micro finance as a commercial institutional activity was generally perceived by policymakers and by the formal financial sector as unimportant for the economy, unprofitable for financial institutions, and unnecessary for the poor. This remains the prevailing view in most developing countries today. However, the 'new micro finance' -profitable, sustainable financial intermediation with services delivered at the local level at full cost- was pioneered in Indonesia, and is beginning to be adapted elsewhere. The new ideas are spreading rapidly. (Christen, 1994).

The examples of BRI and of other self-sufficient institutions that provide finance to large numbers of lower-income households are of significance globally for three reasons. First, it has been demonstrated within the last decade that commercial financial institutions can provide credit profitably from about 5 to 20 percent of the interest rates that lower-income borrowers can obtain from the informal commercial credit market. Second, the massive demand for institutional micro finance worldwide is far too large to be met by donor or government funds. Third, we now know that it is possible for commercial institutions to provide micro finance profitably in widely varied contexts. What is essential is an enabling macro-economic and regulatory environment, a reasonable level of political stability, and a sufficient population density and degree of monetization. Banks and other financial institutions in Bolivia, Colombia, Costa Rica, the Dominican Republic, Ecuador, the Cameroons, Egypt, Kenya, Senegal, South Africa, Bangladesh, India, the Philippines, and others - in addition to a number of institutions in Indonesia - have either established commercial micro finance programs or are in various stages of actively learning about or becoming self- sufficient providers of commercial micro finance. Many have visited BRI in Indonesia to learn about profitable financial intermediation at the local level. BRI (1994) contrasts the old and new paradigms for micro finance, as follows:

2.7 Micro Finance – A development tool

Micro Finance programs and institutions have become an increasingly important component of strategies to reduce poverty or promote micro and small enterprise development. However, knowledge about their preparedness to respond achievements of such initiatives remains only partial and contested. At one extreme are studies arguing that Micro Finance has very beneficial economic and social impacts (Holcombe, 1995; Hossain, 1988; Otero and Rhyne, 1994; Remenyi, 1991; Schuler, Hashemi and Riley, 1997). At the other are writers who caution against such optimism and point to the negative impacts that Micro Finance can have (Adams and von Pischke, 1992; Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood and Shariff, 1997). In the 'middle' is work that identifies beneficial impacts but argues that Micro Finance does not assist the poorest, as is so often claimed (Hulme and Mosley, 1996; Mosley and Hulme, 1998).

Given this state of affairs the assessment of Micro Finance programs remains an important field for researchers, policymakers and development practitionersi. Micro Finance programs have increasingly been established in a number of countries as a means to help poor entrepreneurs fund lump sum requirements, finance investments in economic activities, minimize exposure to sudden income changes, smooth consumption expenditures, and enable the unemployed to rely on self-employment when wage employment opportunities in the formal sector of the economy are limited (Doyle and Karen 2000). Micro finance, the provisions of financial services to the low-income households and micro and small enterprises (SMEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. (Omino 2002).

Omino further asserts that widespread experiences and research have shown the importance of savings and credit facilities for the poor and SMEs. This puts emphasis on the sound development of Micro Finance Institutions as vital ingredients for investment, employment and economic growth. The potential of using institutional credit and other financial services for poverty alleviation in Kenya is quite significant. About 18 million people, or 60% of the population, are poor and mostly out of the scope of formal banking services. According to the National Micro and Small Enterprise Baseline Survey of 1999, there are close to 1.3 million SMEs employing nearly 2.3 million people or 20% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP. Despite this important contribution, only 10.4% of the SMEs receive credit and other financial services. The formal banking sector in Kenya over the years has regarded the informal sector as risky and not commercially viable.

According to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from the SMEs. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long-term. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal financial institutions, such as commercial banks has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative, and pro-poor modes of financing low-income households and SMEs based on sound operating principles need to be developed.

In the past, Micro Finance Institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been important sources of credit for a large number of low income households and SMEs in the rural and urban areas of Kenya. The MFIs have, however, operated without an appropriate policy and legal framework. There is therefore need to focus more on these institutions to enhance their effectiveness in the provision of savings, credit and other financial services to the poor and SMEs.

2.8 Future of Micro Finance Institutions

According to Omino (2002), the future of Micro Finance institutions will be shaped alongside the following four factors: - (1) Commercialization: Demand-driven financial services are provided at prices clients are willing to pay for continued access to these services. Credit services translate to short-term loans with amortization schedules that are well matched to the business and income patterns of micro entrepreneurs. Savings services provide safety and liquidity at low transaction costs; (2) Efficiency: - Quality services are delivered on time, efficiently and cost-effectively to clients of MFIs. Simplified and standardized procedures support decentralized operations conducted in modest and welcoming outlets to poor clients; (3) Incentives for Timely Loan Repayments: - Clients are motivated to repay on time through repeat loans often in increasing sizes, partial interest refund based on a perfect repayment record; penalties and financial disincentives including compulsory savings, mutual guarantee group systems to provide peer pressure and installment payments; and (4) Financial Sustainability: - MFI programs attempt to cover all their operational and financial costs through scaling up their outreach and maintaining a high quality and performing loan portfolio.

2.9 Key environmental forces affecting the business of Micro Finance Institutions

Environmental forces can be divided into five broad categories: (1) Political-Legal forces; (2) Economic forces; (3) Socio-Cultural forces; (4) Technological; and (5) Competitive forces. Environmental trends and events significantly affect all products, services, markets, and organizations in the world (Fred 1991). Winter (1985) asserts that changes in environmental forces translate into changes in consumer demand for both industrial and consumer products and services. Environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. Identifying and evaluating environmental opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The Central Government is the major regulator, deregulator, subsidizer, employer and customer of organizations. Political, governmental and legal factors, therefore, represent key opportunities or threats for both small and large organizations. Political forecasts can be the most important part of an external audit. Changes in patent laws antitrust legislation, tax rates and lobbying activities can affect firms significantly The increasing global independence among economies, markets, governments and organizations makes it imperative that firms consider the possible impact of political variables on the formation and implementation of competitive strategies (Fred 1991).

Economic factors have a direct impact on the potential attractiveness of various strategies for example; if interest rates rise then funds needed for diversification may be too costly or unavailable. (Fred 1991). Fred further argues that as interest rate rise discretionary income declines, and the demand for discretionary goods falls, and stock prices increase in the desirability of equity as a source of capital for market development increases. Social and Cultural changes have a major impact upon virtually all products, services, markets and customers. Small and large profit and non-profit organizations in all industries are being staggered and challenged by the opportunities and threats arising from them changes in social cultural demographic and geographic variables. (Fred 1991)

In the business environment of the 1990s, we believe technology-based issues will underlie nearly every important decision that strategists make. Crucial to those decisions will be the ability to approach technology planning analytically and strategically, We also believe that technology can be planned and managed using formal techniques similar to those used in business and capital investments planning. An effective technology strategy is built on penetrating analysis of technology opportunities and threats, and an assessment of the relative importance of these failures to overall co-operate strategy. (Harris *et al.,* 1983). Firms not managing technology to ensure their futures may eventually find their futures managed by technology.

Technologies input reach far beyond the “high-tech” companies. Although some industries may appear relatively technology intensive in terms of products and market requirements, they are not immune from the impact of technology. (Levine and Valowitz, 1983). Linsky (1998) argues that technological advancements can create new improved products change the relative competitive list positions in an industry and render the existing products and services obsolete. An important part of an external audit is to identify rival firms and to determine the Strengths, Weaknesses, Opportunities, Threats, Objectives and Strategies. Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. (Fredrick, 1983).

3.0 METHODOLOGY

3.1 Research design

A descriptive survey was undertaken. The method was preferred as it permits gathering of data from the respondents in natural settings. Descriptive designs result in a description of the data, whether in words, pictures, charts, or tables, and whether the data analysis shows statistical relationships or is merely descriptive.

3.2 Population

The population of this study was all the MFIs that are registered members of the Association of Micro Finance Institutions (AMFI) as at June 2013. There are many Micro Finance Institutions in Kenya but the focus of this study was the MFIs that are registered members of AMFI. The Association of Micro Finance Institutions, registered in March 1999 under the Societies Act is an umbrella organization representing Micro Finance Institutions in Kenya. By June 2013, AMFI had a total membership of 17 Micro Finance Institutions (list attached). A census survey of all the 17 MFIs was undertaken.

3.3 Data collection

Primary data was collected from the top management of the MFIs with the aid of semi-structured questionnaires. The questionnaires were structured in two main parts. Part 1 captured the background information of the organizations whereas part 2 captured information on pertinent issues touching on the environmental changes, their impact on MFIs operations, coping mechanisms, suggested strategic responses and the factors that influence these responses. The researcher administered the questionnaires by hand delivery to MFIs in Nairobi and its environs. The researcher once completed collected the questionnaires. Self-addressed envelopes with stamps were enclosed in letters to the MFIs located outside Nairobi and were sent by post. A letter of introduction and questionnaire were enclosed in each. The researcher made telephone calls to the respective MFIs to further explain the purpose of the study and set a time frame for the completion of the questionnaires.

3.4 Data Analysis and presentation

The major tool of data analysis was descriptive statistics through measures of central tendencies and measures of dispersion. In order to analyze and present information related to profile of the respondents, graphs, charts, percentages and frequencies were used as follows: - On physical location of the respondent firms, percentages were used to show the number of MFIs located in Nairobi and those located outside Nairobi. The information was presented in form of a chart.

Information with regards to period of operation of the MFIs was captured in terms of percentages of the responses to the various time segments. The information was presented in form of a graph. To analyze responses regarding products/services offered by the MFIs, similar qualitative responses were grouped together, forming 3 categories of products/services. Data pertaining to the number of full time employees was captured in form of percentages and presented in chart form. In order to meet objective 1 of the study: To establish the responses that have been employed by MFIs to cope with changes in the business environment, an analysis of responses related to the extent to which environmental factors affected operations of MFIs and responses of MFIs to changes in the business environment was done using percentages and presented in table form.

The qualitative information on challenges faced by MFIs in serving clients that result from changes in the business environment and coping mechanisms employed was summarized and presented in form of a table. To meet objective 2 of the study: To identify the factors that influence the responses employed by Micro Finance Institutions in Kenya to cope with changes in the business environment, the responses were summarized in form of frequencies and presented in table format.

4.0 RESULTS AND DISCUSSIONS

4.1 Introduction

The study utilized a combination of both quantitative and qualitative techniques in the collection of data. The study covered all the 17 MFIs that are registered members of the Association of Micro Finance Institutions

(AMFI) as at June 2013. The Chief Executive Officers or senior personnel responsible for shaping the strategic direction of the MFIs gave their responses and the relevant documentation relating to the operations of the MFIs were collected. Out of the 17 questionnaires sent out, 16 were returned completed, 94 % response rate.

The data was analyzed by employing descriptive statistics such as percentages, frequencies and tables. Statistical Package for Social Sciences (SPSS) was used to aid in analysis. The researcher preferred SPSS because of the following advantages: (1) SPSS package covers a wide range of the most common statistical and graphical data analysis and is very systematic; (2) Data can be entered directly by typing in the spreadsheet, or can be imported from other programs, like Excel, etc; (3) Standard settings (defaults) can be changed in various options; (4) Various two- or three-dimensional graphs can be produced; and (5) Results of data analysis are clearly structured in output file, in which they could be additionally modified. Computation of frequencies in tables, charts and bar graphs was used in data presentation. The information is presented and discussed as per the objectives and research questions of the study.

4.2 Profile of respondent firms

Location of the MFIs: The respondents were asked to indicate the physical location of their organizations. The researcher had intentions of (1) establishing how widespread the service of MFIs was in Kenya, and find out whether the physical location of each MFI had any influence on the responses related to the study. Figure 4.1 below presents the findings.

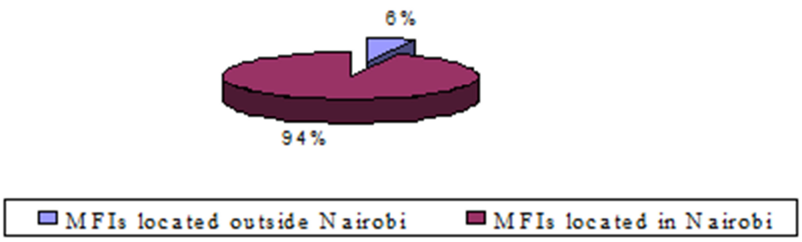


Figure 4.1: Location of the respondent MFIs

Out of the 16 MFIs that responded, 15 (94%) of them are located in Nairobi while 1(6%) is located outside Nairobi (Kisumu). Personal interviews conducted with some of the respondents revealed that most of the MFIs located in Nairobi also had branches in other parts of the country. Whereas the head offices of majority of MFIs in Kenya are strategically located in Nairobi, they offered services to clients countrywide through branch offices.

Period of operation of the MFIs: The respondents were asked to indicate how long they had been in operation by ticking as appropriate against given time segments. The longer an MFI was in operation, the more experience it had in responding to environmental changes and the more objective the responses were expected to be. Relatively new firms were thus not expected to have faced many challenges emanating from changes in the business environment, and their responses would affect the study findings. Figure 4.2 below summarizes the responses.

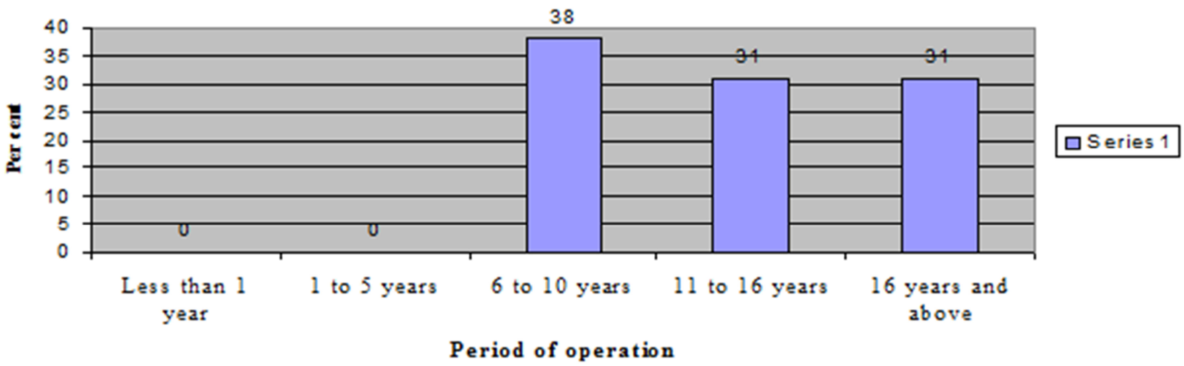


Figure 4.2: Period of operation of the MFIs

Out of the 16 MFIs that responded, 6 of them (38%) had been in operation for a period ranging between 6 and 10 years, 5 of them (31%) had existed for a period of between 11 and 15 years while 5 of them (31%) had been in operation for 16 years and over. Study findings show that MFIs have been operating in Kenya for a long time and all have been affected in one way or another by changes in the business environment. The responses were thus considered objective.

Products/services offered by the MFIs: The respondents were asked to list the products/services the MFIs offered to clients. Findings from the desk study indicated that MFIs worldwide offered products/services to clients, which could be categorized into 3, namely credit, savings and others, which included insurance. The researcher sought to establish whether MFIs in Kenya offered similar products/services to clients or had some unique ones. Findings of the study revealed that the MFIs in Kenya offered products/services which could be categorized into 3 as corroborated by evidence from the desk study. The 3 categories were:- (i) Credit – which include group and individual lending; (ii) Savings – which include members' savings; and (iii) Others, which include insurance on loans

Further probing of the respondents revealed the fact that the MFIs lend to clients on basis of their savings, supported by guarantees from group members or collateral for individuals who wished to access credit outside group membership. Generally, MFIs worldwide offer their clients services/products, which may be categorized into three as, established from the findings. Indications are that MFIs in Kenya offer the same range of services as offered by others worldwide and were likely to face similar challenges when aced by changes in the business environment.

Number of full time employees in the MFIs: The respondents were asked to indicate the number of full time employees in their organizations. The researcher related the number of employees to the size of the firm in that the bigger the number of employees, the bigger the size of the firm. The size of the MFIs too would determine the number of clients served and to some extent give an indication of the size of loan portfolio. Figure 4.3 below gives a summary of the responses.

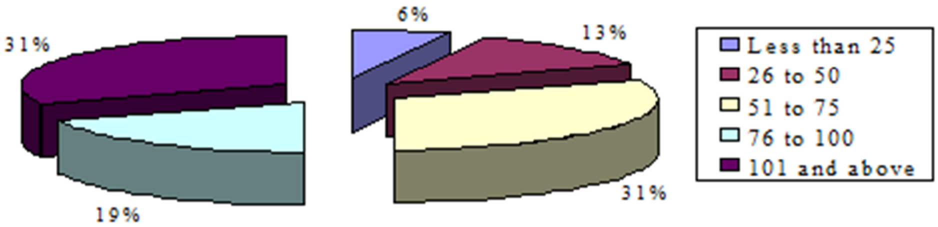


Figure 4.3: Number of full time employees in the MFIs

The findings indicate that 1 out of the 16 firms that responded had less than 25 full time employees, 2 had between 26 and 50 employees, 5 had between 51 and 75 employees, 3 MFIs had between 76 and 100 employees while 5 MFIs had 101 employees and above. The MFIs under study were relatively big establishments, not only serving many clients, but also creating employment for many people.

4.3 Responses of Micro Finance Institutions to changes in the business environment

The first objective of the study was to establish the responses of MFIs to changes in the business environment and the researcher posed 4 questions to respondents. Firstly, the researcher sought responses on the extent to which environmental factors had affected operations of the MFIs. The type of changes and extent to which the changes affected operations of the MFIs would determine responses to changes in the business environment. The extent to which the various changes impacted on operations of the MFIs was expected to vary from firm to firm and appropriate responses would as such be different.

75% of the respondents had been at least been affected by unstable political climate, 6% had not been affected at all while 19% were non-committal. Whereas 56% of the respondents were not affected by Government regulations, only 38% indicated that their operations had been affected while 6% were neutral. Further interviews revealed that most of the MFIs complied with Government regulations and were prepared for whatever regulatory changes envisaged. Liberalization of the financial sector leading to interest rates being determined by the market forces affected operations of 88% of the MFIs, 6% indicated that they had not been affected at all, whereas 6% were neutral on the issue. Reductions in donor funding affected operations of 62% of the respondents, 25% were not affected at all while 13% were neutral.

The increased rate of infection of clients with HIV/AIDS and other terminal diseases affected the operations of all the MFIs that took part in the study. Such cultural factors as women not being empowered to engage in economic activities affected operations of 69% of the MFIs, 25% were not affected at all while only 6% were neutral on the issue. Abrupt changes in Information Communication Technology (ICT) affected 94% of the MFIs while 6% were neutral on the issue. Competition from the bigger banks affected operations of 88% of the MFIs, 6% were not affected at all while a similar number was neutral on the issue. The findings of the study indicate that apart from Government regulations, which the MFIs always anticipate and are adequately prepared to cope with, the other factors in the dynamic business environment had affected operations of the MFIs and all that is required is to put mechanisms in place to manage the changes for unless they manage change, change will manage them.

Some of the occurrences in the environment that had impacted negatively on the operations of the MFIs include frequent conflicts as a result of ethnic tensions in some parts of the country, leading to insecurity and hence an environment that is not conducive to business; having to comply to the ever changing Government regulations; interference from politicians in various areas who felt insecure when MFIs fund development programmes without involving them; the liberalized financial sector where interest rates are determined by market forces, leading to their not being able to fix long term lending rates; the ever reducing donor funding leading to their seeking alternative sources of funds, some of which are expensive; the HIV/AIDS pandemic, which initially led to many losses as a result of loans defaults, though the situation has been arrested through introduction of new schemes such as insurance on loans to clients; such retrogressive and outdated cultural beliefs that prohibit women from carrying out income generating activities amongst some communities; the high cost of investing in ICT, which changes rapidly and abruptly; competition from the major financial institutions and illegal operators.

The business objectives of an organization are continually threatened by risks. To respond to these risks, management develops strategies that enable the organization to meet its objectives. Strategies determine which business processes are necessary to meet management's objectives and which processes require controls to mitigate business risk. No organization is immune to risk. Moreover, each organization's business risks change constantly. The nature and consequences of business risks facing organizations are becoming more complex and substantial. The speed of change, higher customer expectations, increased competition, rapid changes in technology, and countless other factors affect organizations in ways that managers are often unprepared to handle. If management fails to identify a significant risk or does not adequately consider business risks, the organization is unlikely to have in place control activities to manage those risks. Alternatively, if management does not consider environmental changes carefully, its existing control activities may no longer be adequate or appropriate. However, if an organization has a strong risk-management process, including an effective control environment, management can be reasonably sure that it has identified the significant business risks and responded to them appropriately. Table 4.1 below presents the findings. Key: (Very much = 5; Much = 4; Somehow = 3; Neutral = 4; Not at all = 5).

Table 4.1: Extent to which environmental factors affected operations of MFIs

Environmental factor	Rating (%)				
	5	4	3	2	1
An unstable political climate	31	31	13	6	19
Government regulation through restrictions	13	19	6	56	6
Liberalization of the financial sector –interest rates determined by market forces	38	31	19	6	6
Reduction in donor funding of the Micro Finance Institutions	31	25	6	25	13
Increased rate of clients with HIV/AIDS infection and other terminal diseases	56	31	13	-	-
Such cultural factors as women not being empowered to engage in economic activities	31	19	19	25	6
Abrupt and rapid changes in Information Communication Technology (ICT)	56	25	13	-	6
Competition from the big banks for the your market	44	31	13	6	6
N=16					

The second issue to be addressed was the responses the MFIs employed to cope with changes in the business environment. The various MFIs were expected to be unique on their own in terms of planning preparedness in responding to changes in the business environment. Since the extent to which the changes impacted on each MFI was not the same, the researcher sought to find out how each of the respondent firms were responding. This was assessed from responses to the statements shown in table 4.2 below. Key: (Strongly agree = 5; Agree = 4; Somehow agree = 3; Disagree = 2; Strongly disagree = 1)

Table 4.2: Responses of MFIs to changes in the business environment

Environmental factor	Rating (%)				
	5	4	3	2	1
Political-Legal					
We do not operate in areas affected by conflicts such as ethnic clashes	25	31	19	19	6
We regard the introduction of the Constituency Development Fund and other initiatives aimed at poverty eradication as a compliment to our objectives and not a competitor	31	44	13	6	6
We comply with any new Government statutory regulation with ease	38	31	19	6	6
Economic factors					
When market interest rates rise, we increase our lending rates to clients	31	31	6	19	13
When faced with a reduction in donor funding, we reduce loan size to clients	19	25	6	31	19
Socio-cultural factors					
The increased rate of clients' infection with HIV/AIDS has led us to develop new products, which include insurance of loans	44	31	19	-	6
We do not lend to HIV/AIDS infected clients	-	6	13	75	6
We sensitize communities on the need to encourage women to actively participate in income generating activities and shift from the restrictive cultural beliefs that women should only handle household tasks	31	25	19	6	19
Technological factors					
We continuously invest in new equipment and upgrade our systems in order to cope with the technological changes	31	31	19	13	6
We continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment	31	31	13	25	-
Competition					
We invest in marketing activities, which include advertising, personal selling, publicity and new product development so as to remain competitive.	38	31	19	6	6
We continuously look for new markets to expand our reach to remain competitive	25	25	19	25	6
We educate our clients on the importance of dealing with financial institutions that operate legally so that they avoid being exploited by illegal operators.	25	25	13	31	6
We network and collaborate with other MFIs to enjoy synergy instead of looking at them as enemies when there is competition	38	31	19	6	6
N=16					

When presented with the statement 'We do not operate in areas affected by conflicts such as ethnic clashes', 75% of the respondents were in agreement, and 19% disagreed while 6% remained non-committal. The ethnic clashes of the 1990s in various parts of the country led to sudden displacement of many communities. The displaced communities, some who were clients to MFIs and had running loans have never been traced, leading to losses. In addition, the staff of MFIs operating in areas affected by such clashes is exposed to risks that may affect their productivity at work.

Whereas 88% of the respondents regarded the introduction of Constituency Development Fund and other similar initiatives as being complementary to their operations and not as competition, 6% viewed it, as competition while 6% remained neutral. The introduction of such development initiatives as Constituency Development Fund and Bursary funds have eased the financial burdens of the community members, who in the past, had to engage in fund raising activities to meet individual and community needs. Some of these needs were met through borrowing from MFIs. The MFIs find these initiatives complementary to their efforts in that a larger proportion of the clients who borrow invest the funds in income generating activities unlike in the past when these funds were deviated to personal use.

The statement 'We comply with any new Government statutory regulation with ease' drew some mixed reactions with 88% being in agreement, 6% disagreeing and 6% remaining non-committal. The fact that the Central Government is the major regulator, deregulator, subsidizer, employer and customer of organizations is well known amongst practitioners in the Micro Finance Industry and as such, they are adequately prepared to comply to changes emanating from Government regulations.

Whereas 68% of the respondents agreed with the statement 'When market interest rates rise, we increase our lending rates to clients', 19% disagreed while 13% were non-committal. According to Fred (1991), Economic factors have a direct impact on the potential attractiveness of various strategies for example; if interest rates rise then funds needed for diversification may be too costly or unavailable. Fred further asserts that as interest rate rise, discretionary income declines and the demand for discretionary goods falls. As stated earlier, demand-driven financial services are provided at prices clients are willing to pay for continued access to these services and hence in responding to changes in interest rates, the MFIs are in support of commercialization.

The respondents were asked the extent to which they agreed with the statement 'When faced with a reduction in donor funding, we reduce loan size to clients'. 50% were in agreement, 31% disagreed while 19% remained non-committal. The MFIs that disagreed with the statement are those that do not depend on donor funding. Those that had been affected by reduction in donor funding as a result were responding by reducing loan sizes were simply responding to the paradigm shift. The paradigm shift in MFIs presently underway in the developing world is marked by the change from government and donor-funded subsidized credit to sustainable financial intermediation.

94% of the respondents agreed with the statement 'The increased rate of clients' infection with HIV/AIDS has led us to develop new products, which include insurance of loans', none of the respondents disagreed whereas 6% remained non-committal. Whereas only 19% of the respondents agreed with the statement 'We do not lend to HIV/AIDS infected clients', 75% disagreed while 6% remained neutral. The MFIs continue mobilizing savings from and lending to HIV/AIDS infected clients. This has been made possible through development of such new products as insurance cover on loans in order to avoid losses due to deaths of funded clients.

The statement 'We sensitize communities on the need to encourage women to actively participate in income generating activities and shift from the restrictive cultural beliefs that women should only handle household tasks' elicited the following responses: - 75% were in agreement 6% disagreed while 19% remained neutral. The initiative has borne positive results going by the indication that a sizeable number of MFIs clients in Kenya are women.

81% of the respondents agreed with the statement 'We continuously invest in new equipment and upgrade our systems in order to cope with the technological changes', 13% disagreed while 6% remained neutral. Technology-based issues underlie nearly every important decision that strategists make and as Linsky (1998) argues, technological advancements can create new improved products, change the relative competitive list positions in an industry and render the existing products and services obsolete. The findings indicate that a sizeable number of MFIs in Kenya have taken the issue of continuous investment in technology seriously.

75% of the respondents agreed with the statement 'We continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment' while 25% disagreed. The higher the level of training, the more adaptive one becomes to new ways of doing things. Notwithstanding the budgetary constraints being faced by many MFIs as a result of reduction in donor funding, there is need to continuously build staff capacity to enable them adopt to the changing technologies.

To the statement 'We invest in marketing activities, which include advertising, personal selling, publicity and new product development so as to remain competitive' 88% agreed, 6% disagreed while 6% remained neutral. Whereas 69% of the respondents agreed with the statement 'We continuously look for new markets to expand our reach to remain competitive', 25% disagreed while 6% remained non-committal. Through external audits, competitors are identified and their strengths and weaknesses determined with a view to developing effective strategies that can give the MFIs a competitive edge.

63% of the respondents agreed with the statement 'We educate our clients on the importance of dealing with financial institutions that operate legally so that they avoid being exploited by illegal operators', 31% disagreed while 6% were neutral. In the recent past, there has been an influx of illegal operators posing as genuine MFIs, through which unsuspecting clients lost their valuable savings. Majority of the MFIs have taken an initiative to educate their clients on the need to identify themselves with MFIs operating within the legal framework. This has complemented the Government's efforts in curbing the menace.

Responding to the statement 'We network and collaborate with other MFIs to enjoy synergy instead of looking at them as enemies when there is competition', the responses indicate that 88% were in agreement while only 6% remained neutral and 6% disagreed. When faced with a common problem, the MFIs have their own forums in which they deliberate on the issues of concern. For instance, in the recent past, the practitioners have been meeting to deliberate and have a common stand on the pending Micro finance bill. In addition, through their own established networks, the MFIs are able to share information pertaining to clientele in various parts of the country. The responses indicate that various MFIs have mechanisms in place of responding to the changes. Though personal interviews revealed that these mechanisms are not documented anywhere, these were implemented on adhoc basis. To each of the challenges facing the MFIs, the respondents at least had some way of responding. The mechanisms stated are, however, not institutionalized and captured in their policy documents. The third and fourth issues to be addressed were the challenges faced by MFIs in serving clients that result from changes in the business environment (political-legal, economic, socio-cultural, technological and competition) and the coping mechanisms employed. The respondents were asked to list and explain the challenges their respective organizations faced that resulted from changes in the business environment and the mechanisms they used to cope with the challenges. The researcher sought to establish the lessons learnt by the MFIs as a result of the challenges faced over the period of time they had operated and how those lessons helped them institute mechanisms in place to cope with the changes. Table 4.3 below is a summary of the responses:

Table 4.3: Challenges faced by MFIs and the coping mechanisms employed

Factor	Challenges	Coping mechanisms
Political-Legal	Parts of the country have been affected by ethnic conflicts, cattle rustling e.t.c	The MFIs are not keen on operating in areas frequently affected by conflicts as this leads to clients' migration due to insecurity. The staff too is prone to risk of losing property and lives.
	Political interference from politicians who view MFIs' social development initiatives in their respective constituencies as being competitive and not complementary to their own	Through collaboration and networking with the various stakeholders, including politicians, the MFIs have been able to alley these fears.
	Changes in Government regulations. Tension has been heightened by the impending Micro Finance Bill	The MFIs anticipate changes in Government regulations and are always ready for them. They have little problems in complying with the changes
Economic	Liberalization of the financial sector –interest rates determined by market forces	When market interest rates rise, we increase our lending rates to clients
	Donor funding to MFIs has continued to reduce over the years while financial services needs of the clientele continues to rise	The MFIs seek alternative sources of funds. These include accessing credit facilities fro on-ward lending from other financial institutions. The MFIs' lending conditions have also been tightened.
Socio-Cultural	Increased rate of clients with HIV/AIDS infection and other terminal diseases	The MFIs continue lending to HIV/AIDS infected clients but have developed new products, which include insurance for loans among others
	Such cultural factors as women not being empowered to engage in economic activities, especially in the rural areas	Capacity building of clients in business management is carried out on a continuous basis by the MFIs. Cultural barriers to entrepreneurship are addressed during such forums. The study findings indicate success as women form the majority of MFIs clientele.
Technological	The high cost of investing in technology, coupled with the abrupt and rapid changes in Information Communication Technology (ICT)	During budgeting, adequate provisions are made for technological changes and resultant investment. The MFIs have continued to invest in new equipment and upgrade existing systems, especially loans tracking and communication systems. Staff capacity building is carried out on a continuous basis
Competitive	The major banks and other financial institutions have developed products similar to those of MFIs and are targeting a market, previously a preserve of the MFIs	The MFIs invest in such marketing activities as advertising, personal selling, publicity and new product development not only to remain competitive, but also enhance customer loyalty and expand outreach.
	There has been an increase in unfair competition from firms operating illegally (not registered as MFIs) and exploiting the ignorant clients.	Besides using networking and collaboration through AMFI to lock out illegal operators, the MFIs also use training sessions with clients to educate them on the need to deal with reputable and legally recognized financial institutions.

4.3.1 Strategic responses

Pearce and Robinson (1999) argue that strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. Strategic responses are part of competitive strategies that organizations develop in defining their goals and policies. They are reactions to what is happening on the environment of the organization. Strategic responses are concerned with the long-term strategy of an organization involving high investments and embracing the organization as a whole. Findings of the study indicate that the respondent firms had embraced various strategic responses to changes in the business environment. In responding to competition from other financial institutions, the MFIs invested in new products development and seeking to expand the market outreach through various marketing strategies. The firms practice market development, product development and market penetration strategies.

According to Ansoff (1965), The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similarly, when faced with the problem of high prevalence of HIV/AIDS, the MFIs have developed such new products as insurance.

Competition takes place in several sites: between technological regimes, between different design configurations, and between several options of design common to a great number of firms (Foxhall and Fawn, 1992). Dominance may generate irreversibilities and constraints. As technologies evolve, future developments are confined to certain lanes of technological development. Firms remain trapped within a particular paradigm and, consequently, new technological discontinuities, in general, will come from outside, from another industry or from a new stream of knowledge (Utterback, 1994). Different users will almost necessarily adopt a “good” technology, one that presents advantages with respect to other existing or competing technologies. The superior technology diffuses through the market in a natural way and imposes itself over other concurrent technologies (Vinck, 1995).

The MFIs regard other development partners as complementing their efforts as opposed to being competitors. The MFIs are currently holding consultative meetings with a view to arriving at a common approach on how to respond to the pending Micro Finance Bill. The networking and collaboration efforts are meant to ensure that the MFIs enjoy synergy. In their study, Miles and Snow (1985) argue that the rapid changes in the current business environment induce organizations to develop networks that are made of contractual arrangements such as strategic alliances. These new organizational forms would allow organizations facing a demanding environment to focus on their core competencies while maintaining innovation capabilities and flexibility. Strategic behaviors based on alliances can also be interpreted as an evidence of institutional isomorphism (Did Maggie and Powell 1983) as suggested by Meyer *et al.* (1990) in the case of American hospitals where alliances are shown to be a way to reduce the increasing environmental uncertainty. The MFIs have tended to take a futuristic approach by shifting from the old paradigm, where they depended mainly on donor funding to seeking a commercialization approach to enhance sustainability an growth.

4.3.2 Operational responses

Operational responses target specific functional areas of the organization. These do not require a huge amount of resources to implement and they are on a short-term basis (usually less than one year). According to Pearce & Robinson (1999), operational controls provide post action evaluation and control over short periods usually from one month to one year. The MFIs responded to the rapid and abrupt changes in ICT through investment in new equipments and upgrading of existing systems. In addition, the MFIs continuously invested in staff capacity building to cope with the changes. Technological progress is seen as occurring according to specific trajectories: by working on a particular technological regime, the firm develops a unique design configuration that is the practical result of the application of the knowledge possessed (Dosi, 1982; Nelson & Winter, 1982).

The MFIs shift from areas characterized by conflicts such as ethnic clashes as they impact negatively on their day to day operations. The MFIs, having been in the business for long, are able to predict impending regulatory measures, and consequently, have the ability to respond promptly to the changes, which would otherwise impact negatively on their operations.

The MFIs, in response to changes in interest rates, which negatively affect their profitability, pass on the additional costs to the clients. In addition, the MFIs reduce loan sizes when faced with reduction in donor funding. The MFIs that had not developed the new product, insurance scheme, stopped lending to clients that were HIV/AIDS positive as their operations were negatively affected. The current and potential clients were sensitized on the need to actively participate in income generating activities instead. Cultural beliefs in many communities prohibit women from participating in income generating activities. In addition, clients were sensitized on the need to transact with legally registered MFIs.

4.4 Factors that influence the responses employed by MFIs to cope with changes in the business environment

The respondents were asked to indicate the extent to which listed factors influenced the strategic responses their respective MFIs adopted to cope with changes in the business environment. The responses were meant to address the second objective of the study. The various strategies adopted by the different firms are influenced by the respective long and short term objectives set. The focus of the various firms, which include growth and productivity objectives; focus on customer changing financial needs; and the need to identify new opportunities, markets and products to remain competitive, among others. The extent to which to which each of the factors influenced responses of the MFIs thus differed from one firm to another. The findings of the study are summarized in table 4.4 below. Key: (Very much = 5; Much = 4; Somehow = 3; Not at all = 2; Neutral = 1).

Table 4.4: Factors that influence responses by MFIs to changes in the business environment

Factor	Rating				
	5	4	3	2	1
Strategic planning and management objective of continuous reviews	9	3	2	1	1
Forced by changes to adapt or change strategy	5	5	3	2	1
Industry experience	5	5	2	3	1
Need to identify new opportunities, markets and products to remain competitive	9	4	1	-	2
Growth and profitability objectives	6	4	4	1	1
Focus on customer changing financial needs	5	6	3	1	1
N=16					

Whereas 14 of the respondents held that strategic planning and management objective of continuous reviews influenced their strategic responses to changes in the business environment, 1 was not influenced by the factor whereas 1 was neutral. This is mostly done at the functional level of strategy, which is carried out by managers of the various functions areas. It involves development of annual objectives and short-term strategies in areas such as production, operations, research and development, marketing, finance and accounting.

Whereas 13 of the respondents were forced by changes to adapt to or change strategy. This factor did not influence 2 of the respondents whereas 1was neutral. As noted by Senior (1997), there are various catalysts for organizational change such as restructuring, which may include the purchase of new ICT equipment or systems, business process intensification/extensions, staff right sizing, redesign of job groups and redundancies. In the recent past, the scenario has been that some MFIs, in response to competition from major banks, have themselves transformed into commercial banks to remain competitive.

Industry experience influenced 12 of the respondents whereas 3 were not influenced by the factor, 1 was non-committal on the issue. A sizeable proportion of the MFIs studied had been in existence for a long period of time. The lessons learnt through many years of experience have equipped the MFI managers with the necessary skills to detect foreseeable changes from certain symptoms and develop appropriate responses.

The need to identify new opportunities, markets and products to remain competitive is a factor that influenced 14 of the respondents while 2 remained neutral on the issue. According to Ansoff and McDonnel (1990), strategic responses may take many forms depending on the organization's capability and the environment in which it operates. Well-developed and targeted responses are formidable weapons for the firm in acquiring and sustaining a competitive edge. The strategic responses, according to Kiptugen (2003), include restructuring, marketing, information technology and culture change etc. The stiff competition in the financial services sector has seen an increase in innovations amongst MFIs in Kenya, which include development of new market driven products and expansion of outreach to target new markets with a view to remaining competitive.

Growth and profitability objectives are a factor that influenced 14 of the respondents, 1 was neutral while 1 was not influenced by the factor. Pearce and Robinson (1999) assert that strategic responses are a set of decisions that result in the formulation and implementation of plans designed to achieve a firm's objective. Growth and profitability are key objectives of any organization and MFIs are not an exception, hence key influencers of strategic responses to changes in the business environment.

Focus on customer changing financial needs is a factor that influenced 14 of the MFIs, 1 was neutral while 1 was not influenced by the factor. The Chartered Institute of Marketing, UK defines marketing as 'a management philosophy which encompasses the identification, anticipation and satisfaction of customer needs and wants at a profit'. In addition, the marketing concept emphasizes the fact that 'Customer is the King' and all activities of the firm should focus on the customer. The products/services of MFIs must be tailored to suit the changing financial needs of the clients. These include loan sizes and types.

The study findings also indicate that the responses employed by the various MFIs in response to changes in the business environment were influenced by various factors. Key amongst the influencing factors is the strategic planning and management objective of continuous reviews. Foreseen changes are catered for in the various organizations' strategic plans, which are reviewed periodically. Other factors influencing responses to changes in the business environment include the following: - being compelled by the changes to adapt to or change existing strategies; industry experience, having been in operation for long enough to understand the dynamics of the business environment; the need to identify new opportunities, markets and products so as to remain competitive; growth and profitability objectives; and focus on customer changing financial needs.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Understanding the impact of environmental changes on the organizations could help practitioners in the field ensure that the MFIs develop rational strategies to effectively respond. Identifying and evaluating environmental opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives. This study sought to gain a better understanding of the responses of MFIs to the challenges emanating from the turbulent business environment that influence the strategic and operational plans of MFIs in Kenya the factors that influence these responses, which are critical to their outreach and sustainability. The study population were the MFIs that are registered members of the Association of Micro Finance Institutions (AMFI), whose number stood at 17 as per the June 2023, AMFI reports. The respondents in each of the MFIs were either the Chief Executive Officer or a senior member of the organization charged with shaping the strategic direction of the organization.

Primary data was collected by the aid of a semi structured questionnaire and personal interviews. Out of 17 questionnaires sent out, 16 were returned completed. Further, the researcher conducted a comprehensive literature review of materials relevant to the study, whose sources included various websites, books, journals and local daily newspapers and reports obtained from the various MFIs. The information gathered was analyzed using the Statistical Package for Social Science (SPSS), presented and discussed as per the objectives and research questions of the study. Findings of the study indicate that environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. The changes have an influence on the staff, clients, and the institutions' portfolio, and can create numerous pressures on institutions trying to maintain or achieve financial and operational self-sufficiency. If ignored, the changes in the environment can ultimately compromise an MFI's operations, profitability, and long-term viability.

5.2 Conclusion

Organizations and environments are considered not to be completely separated and independent from each other but, rather, to belong to the same continuum. This position, which contains a more complex representation of possible interactions between actors inside and outside the organization, introduces the idea of the construction of the environment. Meaningful environments are considered to be outputs of the process of organizing and not inputs to it: the process of organizing implies the creation of the environment (Weick, 1979). This interpretative perspective connects knowledge and conduct, in the sense that the environmental context is made up of cognition, experiences, thoughts and actions (Smircich and Stubbart, 1985).

In-depth understanding of the external environment, clear definition of strategic options, good marketing research, strong investments in R&D, lean production infrastructure, and consistent financial support are some of the prescriptions postulated by the specialized literature. It is fair to say that these precepts, to a higher or lower degree, still hold for some industries.

Environmental changes have serious economic effects and are of great concern for organizations that would wish to be ahead of competition. Environmental forces affect the types of products developed, the nature of positioning and market segmentation strategies, the types of services offered, and the choice of business to acquire or sell. Identifying and evaluating environmental opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives. Though the MFIs and their clients are particularly susceptible given the limited resources that the poor have to cope with any major financial crisis, they have to put in place mechanisms of coping all together in order to remain competitive

5.3 Recommendations

Understanding the impact of environmental changes on the organizations could help practitioners in the field ensure that the MFIs develop rational strategies to effectively respond. The following are measures that are highly recommended: - (1) environmental scanning be conducted by the MFIs on a continuous basis; (2) the information derived from environmental scanning should be used to drive the strategic planning process by the MFIs; (3) the MFIs to create departments that specialize in dealing with a specific sector of the environment, which should lead to a direct relationship environmental complexity; (4) MFIs to be linked to key outside elements, which include market research and competitive intelligence; (5) differentiation and integration strategies to be institutionalized; (6) Planning and forecasting efforts be enhanced by the MFIs; and (7) the MFIs to adopt institutional imitation.

5.4 Suggested areas for further research

The findings of this study, it is hoped, will contribute to the existing body of knowledge and form basis for future researchers. The following areas of further researcher are thus suggested:- (1) Whereas the current study focused on responses from the management of the MFIs, future studies should focus on responses from the clients; and (2) Findings of the study should be replicated to other sectors of the economy.

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APPENDIX I: MEMBERS OF THE ASSOCIATION OF MICRO FINANCE INSTITUTIONS IN KENYA

1.	Ecumenical Church Loan Fund (ECLOF)
2.	Faulu Kenya
3.	Jitegemee Trust
4.	Kenya Agency to Development of Enterprise and Technology (KADET)
5.	Kenya Post Office Savings Bank
6.	Kenya Women Finance Trust (KWFT)
7.	K-Rep Bank
8.	K-Rep Development Agency
9.	Micro finance Partners (Sunlink)
10.	Micro Kenya Ltd.
11.	Namaratisho Trust Fund
12.	Oiko Credit EDO
13.	Plan Kenya
14.	Pride Ltd
15.	Small and Micro Enterprise Project (SMEP)
16.	WEDCO Enterprise Development
17.	Women Economic Empowerment Consort (WEEC)

Source: AMFI, June 2013

APPENDIX II: QUESTIONNAIRE

This questionnaire has been designed to collect information from the selected staff of Micro finance Institutions in Kenya and is meant for academic purposes only. The questionnaire is divided into two sections. Please complete each section as instructed. Do not write your name or any other form of identification on the questionnaire. All the information in this questionnaire will be treated in confidence.

SECTION A: BACKGROUND INFORMATION

1. Please indicate the physical location of your organization________________________________

2. Please indicate the period of operation of the organization (Tick as appropriate)

(a) Less than 1 year ☐
(b) 1 to 5 years ☐
(c) 6 to 10 years ☐
(e) 16 years and above

3. Please list the ☐ products/services you offer to the clients
____
____
____

4. How many full time employees does the organization have (Pleas tick as appropriate)?

(a) Less than 25
(b) 26 to 50 ☐
(c) 51 to 75 ☐
d) 76 to 100 ☐
(e) 101 years and above ☐

SECTION B: THE BUSINESS ENVIRONMENT

1. To what extent have the following factors affected operations of your organization? (Tick as appropriate)
2.

Environmental factor	Rating				
	Very much	Much	Somehow	Slightly	Not at all
An unstable political climate					
Government regulation through restrictions such as restrictive use of the word 'Finance'					
Liberalization of the financial sector – interest rates determined by market forces					
Reduction in donor funding of the Microfinance Institutions					
The increased rate of infection of clients with HIV/AIDS and other terminal diseases					
Such cultural factors as women not being empowered to engage in economic activities					
Abrupt and rapid changes in Information and Communication Technology (ICT)					
Competition from the big banks for your target market					

2. To what extent do you agree with the following statements as regards measures undertaken by your organization when faced with changes in the business environment? (Please rate as appropriate).

Where: Strongly agree = **(5);** Agree = **(4);** Somehow agree = **(3);** Slightly agree = **(2);** Disagree = **(1)**

Environmental factor	Rating				
	5	4	3	2	1
Political/Legal					
We do not operate in areas affected by conflicts such as ethnic clashes.					
We regard the introduction of Constituency Development Fund and other initiatives aimed at poverty eradication as a complement to our objectives and not a competitor.					
We comply with any new Government statutory regulation with ease					
Economic factors					
We adjust our lending rates depending on the changes in the market interest rates.					
We adjust our loan size depending on the availability of donor funding.					
Socio-Cultural					
The increased rate of clients' infection with HIV/AIDS has led us to develop new products.					
We do not lend to HIV/AIDS infected clients					
We sensitize communities on the need to encourage women to actively participate in income generating activities and shift from the restrictive cultural beliefs that women should only handle household tasks.					
Technological changes					
We continuously invest in new equipment and upgrade our systems in order to cope with technological changes					
We continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment					
Competition					
We invest in marketing activities, which includes advertising, heavy personal selling, publicity, new product development so as to remain competitive					
We continuously look for new markets to expand our reach to remain competitive					
We educate our clients on the importance of dealing with financial institutions that operate legally so that they avoid being exploited by illegal operators					
We network and collaborate with other MFIs to enjoy synergy instead of looking at them as enemies when there is competition					

3. Please list and explain any other challenges that your organization has faced in serving clients that result from changes in the business environment (The environmental changes i.e. Political/Legal, Economic, Socio-cultural, Technological and Competition)

____
____
____

4. Please explain how your organization copes with the challenges caused by the changes in the business environment.

____
____
____
____

5. Please indicate the extent to which the following factors influence the strategic responses by your organization to changes in the business environment (Tick as appropriate)

Where: Very much = **(5);** Much = **(4);** Somehow = **(3);** Slightly = **(2);** Not at all = **(1)**

Factor	Rating				
	5	4	3	2	1
Strategic planning and management objective of continuous reviews					
Forced by the changes to adapt or change strategies					
Industry experience					
Need to identify new opportunities, markets and products to remain competitive					
Growth and profitability objectives					
Focus on customer changing financial needs					

THANK YOU!

____