COMPETITIVE STRATEGY IMPLEMENTATION IN MICROFINANCE ORGANISATIONS IN KENYA

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COMPETITIVE STRATEGY IMPLEMENTATION IN MICROFINANCE ORGANISATIONS IN KENYA

By

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- Finally, may glory and honor be to my Lord and Savior as with him everything is possible. I owe it all to Him!

DECLARATION

I, Ruth Wambui Waweru, hereby declare that this thesis entitled: "**Competitive strategy implementation in microfinance organisations in Kenya**" is my own work and has not previously been submitted to any other University or institution for a degree. Further, all the references in the text have been duly acknowledged.

Signed: ---------- 6 November 2013

Ruth Wambui Waweru Date

DEDICATION

This thesis is dedicated to my family:

- My late mother Rachel Muthoni and Uncle Benjamin Coroma, you both encouraged me to pursue the highest level of education and to believe in my ability to change the world positively.
- My husband Joseph Waweru, sons Richard Waweru and George Waweru and my nephew Zachary Ngure.

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ABSTRACT

Poverty is a major challenge in most developing countries. Key challenges of the government are to alleviate poverty and propel citizens toward wealth creation through development of enterprises across all sectors and to address the problem of unemployment. In Kenya, the SME sector comprises of about 99% of private sector enterprises and is prolific in employment and wealth creation. Despite this critical role played by SMEs in growing the economy, they remain outside the formal banking sector, especially in Africa. Although the number of MFOs since the 1980s has increased, the demand for financial services is largely unmet. However, MFOs are increasingly experiencing competition from new entrants and commercial banks that have developed financial models to target SMEs. MFOs are required to formulate and implement competitive strategies to enable them achieve sustainable growth and compete with commercial banks. However, strategy implementation is generally accepted as a challenge across organisations and it is often easier to formulate strategies than implementing it. Despite the need to address strategy implementation challenges across organisations, there is a greater focus by practitioners and researchers regarding strategy formulation than implementation. Consequently, this study aimed at assessing the level of strategy implementation in MFOs and factors that affect strategy implementation in MFOs. The ultimate objective was to develop a hypothetical model that could be used to improve strategy implementation in microfinance organisations in Kenya.

This quantitative study used purposive sampling to select MFOs that are members of the Association of Microfinance Institutions (AMFI) in Kenya, completing a self-administered structured questionnaire. In total, 135 MFOs were involved in this study and a total sample size of 300 managers was used in this study. This study considered fourteen factors to have an influence on the level of strategy implementation of MFOs in Kenya and hence fourteen null-hypotheses were formulated and tested. The *content factors* included stakeholder involvement in strategy development and the quality of strategies. The *context factors* included organisational structure and culture, strategic leadership and alignment of strategy to market conditions. The *operational process*

factors included operational planning, monitoring and review of progress, teamwork, resources allocation, people-strategy fit, effective communication, strategic and management control systems and information resources. It is assumed that if all these critical strategy implementation factors are addressed, MFOs should be able improve their level of strategy implementation, ultimately leading to improved performance. The outcome factors considered were *improved financial sustainability* and *outreach* of MFOs.

Advanced statistical analyses were used to analyse the data, such as factor analysis, regression and correlation analysis to assess the hypothesised relationship between the dependent and independent variables of this study. The empirical results revealed that the level of strategy implementation in MFOs in Kenya is moderate to high and content, context and operational factors do have an influence on the level of strategy implementation. However, operational factors have a more significant positive linear relationship with level of strategy implementation than the other two factors. There is also a positive relationship between the level of strategy implementation and financial sustainability and outreach by MFOs.

This study has contributed to the existing body of knowledge by developing a hypothetical model that can be utilised by MFOs as well as other organisations to improve the level of strategy implementation resulting in better performance. The findings of the study can also inform strategy formulation and implementation of MFOs in Kenya, but also in other developing countries, to become more competitive. This study could also help MFOs and other organisations to put in place structures, systems, people and other resources required to attain a high level of strategy implementation. This study provides useful and practical guidelines in dealing with content, context and operational factors affecting strategy implementation in any organisational setting.

CHAPTER 1

SCOPE AND BACKGROUND OF THE STUDY

1.1 INTRODUCTION

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

Through direct interventions in poor households by facilitating access to financial and business development services, MFOs are an effective means of realising millennium development goals, especially the goals of halving world poverty by 2015 and promoting gender equality (UNCDF 2005:3). Indeed, microfinance underpins the achievement of many millennium development goals Millennium Development Goals (MDG) and plays a key role in many MDG strategies. If lower income people are to manage and grow their assets, they need access to financial services. Due to the critical role played by microfinance in delivering financial services to the poor, the United Nations General Assembly already declared 2005 as the International year of Microcredit (UNCDF 2005:2).

Globally, the microfinance sector has only been able to meet 4% demand of its potential market although the annual growth is on average 25-35% (UNCDF 2006:1). The demand for microfinance services is largely unmet. Estimates of the global demand

range from 400 to 500 million households of which only 30 million were reported to have access to sustainable microfinance service in 2002. Although MFOs globally have low outreach and the demand for financial services is unmet, the number of customers who use microfinance has grown between 25-30% annually. Further, only 2% of MFOs are financially stable and this limits their ability to increase the number of customers and to provide sustainable financial services (UNCDF 2006:1). This situation implies that MFOs should formulate and implement growth strategies to improve their outreach, operational sustainability and profitability.

The role of microfinance is critical in Kenya due to socio-economic inequalities. Inequality in the country manifests itself in various dimensions including access to basic social amenities, income levels and gender bias. About half of the rural population and between 29-50% of the urban population were poor in the 1990s and early 2000s (Rhoda & Naomi 2012:6). Table 1.1 below shows the poverty estimates in Kenya.

Table 1.1: Summary of poverty estimates in Kenya

Year	Data source	Poverty incidence		
		National	Rural	Urban
1992	1992 Welfare Monitoring Survey I (WMS I)	--	46%	29.30%
1994	1994 WMS I	40%	46.80%	29%
1994	1994 WMS II	38.80%	39.70%	28.90%
1997	1997 WMS III	52.30%	52.90%	49.20%
2000	Mwabu *et al*. (2002) using WMS III	56.80%	59.60%	51.50%
2005	Kenya Integrated Household Budget Survey (KIHBS)	45.90%	49.10%	33.70%

Source: Wambugu and Munga (2009:8)

The country has experienced slow economic growth which in essence contributed to high levels of poverty. However, economic growth increased significantly from 0.27% in 1997 to 6.3% in 2006; per capita incomes in 2005-06 stayed at 1997 levels, while poverty decreased from 52.3% in 1997 to 45.9% in 2005-06. Although the proportion of the population living in poverty has declined, the number of those living below the poverty line is estimated to have increased from 13.4 million in 1997 to about 16.6 million in 2006 (Kenya Institute for Public Policy Research and Analysis [KIPPRA]

2009). Despite the increase in economic growth, this only affected a few groups excluding those without ownership of factors of production such as land and capital as well as those without relevant skills for employment. Indeed, this imbalance led to increased inequality in income distribution. Consequently, the country has a high wealth disparity between the poor and the rich (World Bank Report 2008:10). Due to slow economic growth of most of the productive sector, unemployment is estimated at 40% and is high among the youth population (World Fact Book 2013). Rapid economic growth is viewed as the key to alleviating poverty in Kenya and MFOs are expected to play a key role (Wambugu & Munga 2009). Hence, growth and development of MFOs is critical in Kenya as a means of creating employment, alleviating poverty and accelerating economic development of the country, through promotion of SMEs.

High levels of poverty and unemployment since mid-1980 have continuously pushed many people to self-employment by starting income-generating activities. SMEs play a critical role in any economy and particularly in emerging economies. They are a source of entrepreneurial skills, innovation and employment. In Africa, SMEs comprise 90% of business operations and provide 50% of employment and gross domestic product (GDP) (Okafor 2006). In Kenya, SMEs create employment at low levels of investment per job, leading to increased participation of indigenous people in the economy; they use local resources, promote creation and use of local technologies and provide skills training at low cost to the society (International Labour Organisation [ILO] 2008:19).

Despite the critical role played by the SMEs in growing economies they remain outside the formal banking sector and one of the commonly cited challenges experienced by SMEs is limited access to financial services. In Kenya, the SME sector was excluded by the formal banking sector since it was perceived as risky and costly to process and follow-up small loans. Other factors hindering access to finance by SMEs include government's high level of domestic borrowing, leading to increased cost of borrowing due to the high demand of limited capital, insufficient competition in the banking sector and Central Bank regulations such as provision of tangible collateral for loans that excludes the majority of poor and business enterprises in the small and medium

categories that lack tangible collateral to secure credit (Department for International Development Report 2004).

An estimated 99% of private enterprises are in the SME sector which contributes 18.4% to the GDP, is prolific in employment creation and ensures that the poor, especially women, participate in building the economy through various economic activities (Government of Kenya [GoK] Report 2005). In spite of the government's recognition of the critical role played by SMEs there has been minimal resource allocation, especially improving access to credit and business development services. The government's role has remained providing the policy framework through sessional papers only. Hence, microfinance organisations (MFOs) are bridging the gap by assisting enterprises with access to finance and business development services. The MFOs provide a broad range of financial services to SMEs and the poor, such as savings deposits, loans, payment services, money transfers and insurance services among other emerging needs (Charitonenko & Campion 2003:2). By June 2003, there were an estimated 6913 registered micro lending organisations with total deposits of 82.3 billion Kenya shillings (equivalent to US $ 1.1 billion) and loans outstanding of 71.4 billion Kenya shillings (equivalent to US $ 940 million) with a client base of 4.9 million people (Saban 2005).

Kenya has emerged as one of the most advanced countries in sub-Saharan Africa in the microfinance sector and has provided a learning ground for many countries in Africa. In spite of the increased number of registered MFOs, only 10.4% of enterprises have access to finance and only 19% of Kenyans have had access to finance from commercial banks (Central Bank of Kenya Report 2007). These figures indicate the need for effective management of MFOs so as to increase access to financial services for the majority of the poor and SME operators in the country.

Apart from the need of MFOs to expand outreach and serve more people, there is increased competition from the commercial banks and newly registered MFOs. The commercial banks have realised that it is profitable to lend to SMEs using proven models used by MFOs (Association of Microfinance Institutions [AMFI] 2012:13). Porter

(2004:3) maintains that organisations must formulate competitive strategies relating to the industry for their growth and survival. Most of the MFOs in the advent of intense competition have adopted the practice of strategy formulation. Nevertheless, like most organisations, the level of strategy implementation is low. Hence, the present study is aimed at identifying implementation factors that influence strategy implementation, identify how to overcome the barriers to enable organisations realise the intended strategy, and develop a framework capable of assisting managers to overcome the implementation challenge. Successful implementation of strategies will ensure a more vibrant sector capable of expanding the outreach to SMEs and poor households, and will effectively compete with commercial banks and new entrants into the sector.

This section has provided details on the importance of MFOs in poverty reduction, especially in developing countries since the poor are able to invest in enterprises to generate income and to create employment for themselves and others. However, Kenyan MFOs are experiencing stiff competition from commercial banks in the formal sector after realisation that it is profitable to lend to small enterprises with proven models used by MFOs. Development and implementation of competitive strategies will ensure that MFOs thrive in a competitive environment. This study will focus on identifying factors that influence implementation of strategies in MFOs and the level of strategy implementation.

The section on the problem statement below discusses literature on the state of poverty in developing countries, its causes, challenges experienced by the poor and SMEs as they try to get out of poverty, the role of MFOs in eradicating poverty and their challenges in supporting the poor and SMEs. Other key sections of this chapter comprise the research objectives, questions and hypotheses, research methodology, outline of the study's main chapters and a conclusion.

The following section will provide the problem statement of the study.

1.2 PROBLEM STATEMENT

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

The economy has been experiencing slow growth while the disparity between the rich and the poor continues to increase. The result of slow economic growth is characterised by widespread inflation, unemployment and high levels of poverty where over 56% of the population survives on one US dollar per day (GoK 2005). Kenya's development challenge therefore remains finding sustainable poverty eradication strategies. The government of Kenya considers the SME sector instrumental in the economic development of the country. This is illustrated in the Economic Recovery Strategy Paper for Wealth and Employment Creation (ERS) 2003-2007 which has identified the SME sector as an effective strategy to economic recovery and growth (GoK 2003). Dobbs and Hamilton (2007:296) note that productive, innovative small businesses generate employment, promote economic growth and are responsible for 95% of all radical innovations. MFOs provide a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households. MFOs emerged from the 1980s to provide the poor with credit and business development services (Charitonenko & Campion 2003:1).

The main goal of MFOs is to provide sustainable financial services to the poor, to facilitate income generation and reduce poverty (Baumann 2001). The genesis of this argument is that the poor lack access to financial services, credit and savings facilities. Lack of access to credit for the poor and SMEs is not due to a shortage of loanable funds but to a number of factors that hinder commercial banks in lending to this sector. Some of the factors are: high cost of processing and follow-up of small loans, high risks of lending and lack of tangible collateral (Pischke 2001). Hence, MFOs are recognised

and acknowledged as vital and significant contributors to economic development, employment creation and technological development (Mortis 2000). Lack of access to credit is commonly cited as a key problem limiting the growth of SMEs in Kenya (Wanjohi & Mugure 2008:7).

During the past 15 years, the microfinance sector has gained support from both the Government of Kenya (GoK) and international donors to be considered an industry by itself. An estimated US $ 80 million has been received by the microfinance industry in Kenya thus far. In the early 1990s, the GoK established a Structural Adjustment Programme that liberalised the economy and caused the GoK to support micro-enterprises to counter possible negative effects of this liberalisation. Kenya was interested in supporting entrepreneurial development, hastening economic growth, and creating employment opportunities that were all considered to be hindered by lack of credit and limited access to financial services in rural areas (Foundation for Sustainable Development [FSD] 2007). MFOs are under pressure from shareholders to operate profitably, to continue to serve clients in the future, and to grow (Otero & Rhyne 1994:94). While MFOs had previously enjoyed a virtual monopoly, there is intense competition from new entrants and commercial banks after a realisation that MFOs are making good profits by lending to SMEs and the poor (Copestake 2000:2061).

Due to intense competition and rapid changes in the microfinance sector, most of the organisations have adopted competitive management practices. Formulation of strategies is a common practice to most of the MFOs for their survival and growth. Strategy is essential in positioning an organisation in a competitive environment to attain a sustainable competitive edge and to adapt to anticipated changes (Hope & Hope 1997). The business environment is dynamic, complex and gradually changing, hence the need for competitive strategies (O'Regan & Ghobadian 2002:416). In addition, strategy provides a long-term view for an organisation and ensures that it remains focused (Porter 2004:3). In spite of the anticipated benefits from well-formulated strategies, most of them fail to produce superior performance if they are not successfully implemented.

Most authors in strategic management have acknowledged difficulties experienced by organisations in implementing their strategies. Hrebiniak (2006:12) notes that formulation of strategy is a difficult task for any management team, but implementing the strategy throughout the organisation is even more difficult. Strickland and Thompson (2003:203) have stressed that implementing strategy is the most complicated and time-consuming part of strategic management. Hence, strategy implementation is a challenge and many factors influence the success or failure of strategy. It appears that only less than 30% of developed strategies developed are implemented (Corboy & Corrbui 1999:30; Miller 2002:359; Mintzberg 1994:22; and Raps 2005:141).

In spite of the low rate of strategy implementation, this field suffers from a general lack of attention since more research has been carried out on strategy formulation than on strategy implementation (Aaltonen & Ikavaiko 2002:415; and Noble 1999a:121). It is suggested that strategic management should shift focus from strategy formulation to implementation (Lorange 1999:18). In addition, research in strategy implementation is fragmented due to a lack of consensus on models and frameworks. The survival of MFOs in the current environment will depend on the quality of strategies developed and their effective implementation.

Successful strategy implementation will depend on an organisation's ability to overcome barriers during the process of implementation. Several authors have acknowledged the existence of numerous barriers during the strategy implementation process, but literature is limited on how to overcome these barriers. Furthermore, this study will seek to identify and investigate barriers experienced by organisations during the strategy implementation process and ways of overcoming these challenges. The hypothetical model of this study suggests that if barriers to the implementation process are identified and addressed, intended strategies will be turned into realised strategies, and this would lead to improvement of MFOs' performance, as measured by financial sustainability and increased access to financial services for SMEs and poor households.

Against this background, the main research question to be addressed in this study is: *Which factors affect strategy implementation and what is the extent or level to which strategies are implemented in MFOs in Kenya?*

1.3 RESEARCH OBJECTIVES

1.3.1 Primary objective

The primary objective of this study is to investigate perceptions of managers regarding the factors that influence strategy implementation in microfinance organisations in Kenya.

1.3.2 Secondary goals

To help achieve the main objective, the following secondary goals have been set for this study:

- To identify the content, context and operational factors that affect strategy implementation in MFOs;
- To establish the level of strategy implementation in MFOs;
- To determine how the level of strategy implementation affects performance of MFOs;
- To develop and test a measuring instrument investigating the factors that may affect strategy implementation in MFOs;
- To provide guidelines to MFOs to improve their strategy implementation efforts.

1.4. RESEARCH QUESTIONS

The following main research questions will guide this study:

- Which *content factors* affect strategy implementation of MFOs in Kenya?
- Which *context factors* affect strategy implementation of MFOs in Kenya?

- Which *operational factors* affect strategy implementation of MFOs in Kenya?
- What is the extent or level of strategy implementation of MFOs in Kenya?
- How does the level of strategy implementation affect the performance of MFOs in Kenya?

1.5 RESEARCH HYPOTHESES AND HYPOTHETHICAL MODEL OF THE STUDY

According to the conceptual framework of this study, strategy implementation could be influenced by context, content and operational process factors. The *content factors* include stakeholder involvement in strategy development and the quality of strategy. The *context factors* include organisational structure and culture, strategic leadership and alignment of strategy to market conditions. The *operational process factors* include operational planning, monitoring and review of progress, teamwork, resources allocation, people-strategy fit, effective communication, strategic and management control systems and information resources. It is hypothesised that if all these critical strategy implementation factors are addressed, MFOs should improve their level of strategy implementation leading to improved performance. The intermediating factor, according to the hypothetical model, is the level or extent of strategy implementation which could be regarded as high, moderate or low. The outcome factors would be improved financial sustainability and outreach of MFOs. Based on the hypothetical model identified in this study, the following hypotheses were formulated and will be investigated in this study:

- **First set of hypotheses: Influence of the independent variables on the level of strategy implementation**

$H_{1.1}$: There is a positive relationship between *stakeholders' participation* in strategy formulation and the level of strategy implementation.

$H_{1.2}$: There is a positive relationship between the *quality of formulated strategies* and the level of strategy implementation.

$H_{1.3}$: There is a positive relationship between *organisational structure* and strategy fit and the level of strategy implementation.

$H_{1.4}$: There is a positive relationship between *organisational culture* and strategy fit and the level of strategy implementation.

$H_{1.5}$: There is a positive relationship between *strategic leadership* and the level of strategy implementation.

$H_{1.6}$: There is a positive relationship between *alignment of strategy to market conditions* and the level of strategy implementation.

$H_{1.7}$: There is a positive relationship between *operational planning* and the level of strategy implementation.

$H_{1.8}$: There is a positive relationship between *monitoring of progress* in strategy implementation and the level of strategy implementation.

$H_{1.9}$: There is a positive relationship between *teamwork* and the level of strategy implementation.

$H_{1.10}$: There is a positive relationship between *resources allocation* to strategy and the level of strategy implementation.

$H_{1.11}$: There is a positive relationship between *people-strategy fit* and the level of strategy implementation.

$H_{1.12}$: There is a positive relationship between *effective communication* and the level of strategy implementation.

$H_{1.13}$: There is a positive relationship between the use of *strategic and management control systems* and the level of strategy implementation.

$H_{1.14}$: There is a positive relationship between use of *information resources* and the level of strategy implementation.

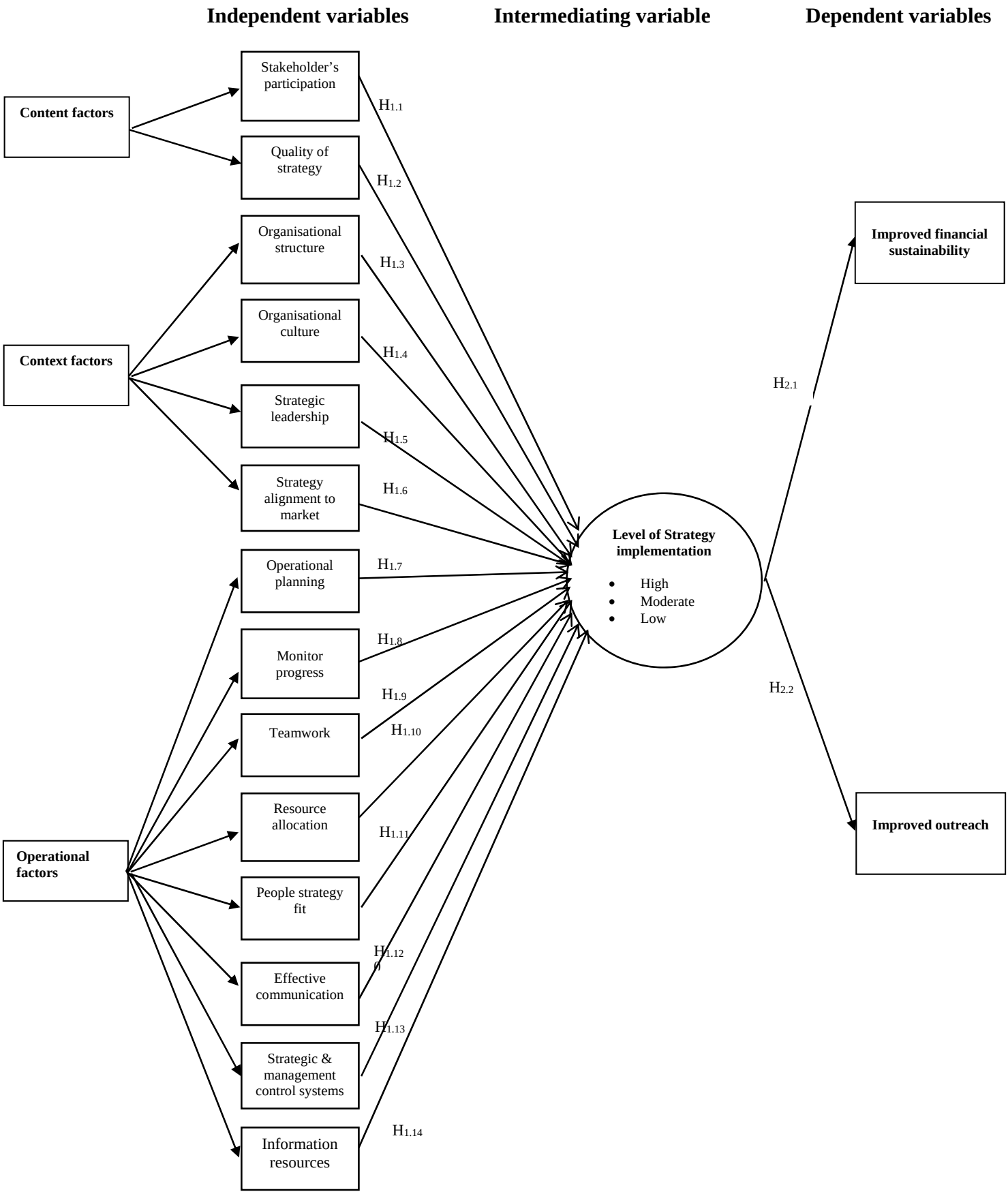
- **Second set of hypotheses: Effect of level of strategy implementation on organisational performance**

$H_{2.1}$: There is a positive relationship between level of strategy implementation and *financial sustainability* of MFOs.

$H_{2.2}$: There is a positive relationship between level of strategy implementation and *outreach* of MFOs.

Figure 1.1 below shows the hypothetical model of factors influencing strategy implementation.

Figure 1.1: Hypothetical model of the study



1.6 RESEARCH METHODOLOGY

This section provides a brief description of the research methodology comprising: research paradigm, sampling design, the measuring instrument, data collection methods and data analysis. The purpose of this section is to only provide a brief highlight, since Chapter 6 will provide a detailed discussion of the research methodology followed in this study.

1.6.1 Research paradigm

According to Collis and Hussey (2003), there are two main types of research paradigms ranged on a continuum from a positivistic to a phenomenological approach. The positivistic approach attempts to explain social phenomena by establishing a relationship between variables which are information converted into numbers. This approach is referred to as "quantitative research". The phenomenological paradigm, on the other hand, assumes that social reality lies within the unit of research and that the act of investigating the reality has an effect on that reality. This paradigm pays considerable attention to the subjective or qualitative state of the individual, hence this approach is referred to as qualitative research.

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

1.6.2 Population

There is no comprehensive database of MFOs in Kenya. In 2008 there were about 5122 savings and credit cooperatives (SACCOs), 35 Microfinance institutions (members of the Association of Microfinance Institutions [AMFI]), 150 NGOs and companies and

numerous informal lenders that provide financial services to SMEs in the country (Central Bank Kenya [CBK Report] 2008:6). Hence, there are an overall estimated 5307 MFOs in the country. Some of these MFOs are members of AMFI while others are not. However, the population for this study was drawn from the available database provided by the CBK in 2005, indicating there were an estimated 150 NGOs and 3000 SACCOs providing financial services to SMEs in the country. Hence, there were an estimated 3150 MFOs in the country in 2005. Only about 20% of these MFOs had been in operations for 10 years or longer. This study assumed that strategy development for MFOs that had been less than 10 years in operation was at a nascent stage or was just emerging, and therefore the managers might not provide substantial contributions to the factors that influence the level of strategy implementation in their MFOs. The total study population was 630 MFOs that had been in operation for more than 10 years.

1.6.3 Sampling design

A non-probability sampling procedure, namely purposive sampling, was used to select MFOs that were members of AMFI Thereafter, convenience sampling was used to select the other MFOs. In total, 135 MFOs were involved in this study. Where managers in an MFO were not responsive to the study, they were replaced by others. From each MFO, the CEO and one middle-level manager were selected as respondents to the measuring instrument, since senior managers should be at the helm of strategy development and its implementation. To ensure that the managers had a firm grip on strategy implementation issues of the MFOs, one was to have been with the MFO for at least two years. A sample of 135 MFOs was taken and in each MFO, two managers completed the questionnaire. Four hundred and fifty questionnaires were distributed and a total of 300 usable questionnaires were returned and used for analysis purposes.

1.6.4 The measuring instrument

The instrument in this study was self-administered questionnaires using the survey method. The questionnaire was constructed using a five-point Likert-type scale. The

following are the sections of the measuring instrument. Sections A to E measured responses based on an ordinal scale (1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree) and Section F used a nominal scale:

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

1.6.5 Pilot study

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

1.6.6 Data collection

1.6.6.1 Secondary data

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

1.6.6.2 Primary data

Primary data was collected from the CEOs and senior managers of the sampled MFOs by means of a survey using self-administered questionnaires. The survey targeted a CEO and one senior manager in each MFO. Introductory letters to the MFOs were solicited from AMFI, CBK and the Ministry of Cooperatives. These letters assisted in soliciting cooperation from the MFOs and addressing any fears and suspicions from the MFOs and the respondents regarding the study. Questionnaires were given to the respondents through email communication and hand delivery by research assistants. Completed questionnaires were either sent through email by the respondents or collected by the research assistants. The section below highlights the methods used to undertake data analysis.

1.6.7 Data analysis

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

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

The section below provides the outline of the main chapters of the study.

1.6.8 Validity and reliability of the measuring instrument

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

1.6.8.1 Validity

Validity of the measuring instrument (questionnaire) will be ensured by conducting an exploratory factor analysis. Factors with a loading of less than 0.50 will be excluded from further analysis. Construct validity will be assessed by means of convergent and discriminant validity. To ensure face and content validity of the questionnaire, use was made of expert judgement, and a pilot study was conducted.

1.6.8.2 Reliability

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

1.7 LITERATURE REVIEW: CLARIFICATION OF KEY CONCEPTS

The key concepts of the study are only being introduced in this section and will be discussed in detail in the literature chapters to follow.

1.7.1 Microfinance organisations

"Microfinance" refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan (Business News Daily 2013). Schreiner and Colombet (2001:339) refer to microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as

savings, loans and insurance to poor people living in both urban and rural settings, who are unable to obtain such services from the formal financial sector.

1.7.2 Strategy

"Strategy" refers to the art and science of planning and marshalling resources in the most efficient and effective manner. It is derived from the Greek word for generalship or leading an army (Business Dictionary.com 2013b). De Wit and Meyer (2010:25) suggest that strategy refers to knowing the business one proposes to carry on, resulting in choices on where to play and how to win in order to maximise long-term value. Strategy is thus an action that managers take to attain one or more of an organisation's goals, indicating the general direction set for the organisation and its various components to achieve a desired state in the future. A strategy is all about integrating organisational activities and utilising and allocating the scarce resources in the organisational environment so as to meet the present objectives.

1.7.3 Strategy implementation

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

1.8 SCOPE AND DELIMITATION OF THE STUDY

This study reviewed the literature and made an empirical survey of content, context and operational factors impacting the level of strategy implementation of microfinance

organisations in Kenya. The focus of the study was on these three factors affecting strategy implementation and performance of MFOs in Kenya. Three hundred MFOs were surveyed by means of self-administered questionnaires.

1.9 STRUCTURE OF THE RESEARCH

The study is organised into the following eight chapters:

- **Chapter 1: Scope and background of the study**

This chapter provides the introduction and background of the study, the problem statement, study objectives, research questions, research hypotheses and research methodology.

- **Chapter 2: Microfinance organisations in Kenya**

This chapter provides an outline of the general business environment of Kenya, an overview of the private sector since MFOs have provided services in this sector, an overview of the financial sector, and a detailed discussion of MFOs that includes current status of MFOs, performance, challenges and a profile of strategy implementation by MFOs.

- **Chapter 3: Theoretical overview of strategy implementation**.

Concepts used in this study are: strategic management, strategy, competitive strategy and strategy implementation. Other areas covered include the importance of strategy implementation, the process of strategy implementation and barriers to strategy implementation.

- **Chapter 4: Extent of strategy implementation and critical success factors**

This chapter provides literature on the extent to which strategy is implemented, as well as the level of strategy implementation in organisations and critical success factors for successful strategy implementation.

- **Chapter 5: Hypothetical model of the study**

This chapter provides an overview of previous strategy implementation frameworks. Thereafter the conceptual framework for the study is provided, and variables of the model are discussed in depth.

- **Chapter 6: Research methodology**

This chapter focuses on the research methodology of the study. It starts with outlining the paradigm of the research and moves to providing information about the study population, sampling frame and sample size, research instrument, data collection, analysis and the scope of the study.

- **Chapter 7: Empirical results**

This chapter presents, interprets and discusses the empirical findings in terms of the stated research objectives and hypotheses.

- **Chapter 8: Summary, conclusions and recommendations**

The main conclusions of the study are outlined, and managerial implications and recommendations are given.

1.10 CONCLUSION

Chapter 1 has provided a comprehensive background of the study, the problem statement, hypotheses, research methodology and a brief outline of the main chapters. Chapter 2 will provide detail on the status of MFOs in Kenya and a general overview of the financial sector in the country.

CHAPTER 2

OVERVIEW OF BUSINESS ENVIRONMENT AND MICROFINANCE ORGANISATIONS IN KENYA

2.1 INTRODUCTION

The previous chapter provided an introduction and background to the study. In this chapter, the business environment which has an influence on operations of MFOs and all the economic activities supported by MFOs is explored. In addition an analysis of the private sector in Kenya is provided, as MFOs mainly support creation and expansion of SMEs which constitute 99% of the private sector enterprises in Kenya (Private Sector Development Strategy [PSDS], 2006:10). In many emerging markets, the SME sector is one of the principal driving forces for economic growth and job creation. They constitute 95% of all the enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide (Kihimbo, Ayako, Omoka & Otuya, 2012:303). The sector plays a pivotal role in creating dynamic, market-orientated economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratisation (United Nations Environmental Progarmme [UNEP], 2007:8). Kenya has over one million SMEs, and in 2003, the sector contributed 18% of GDP and employed 5.1 million people representing 74% of the labour force. In the year 2012, the informal sector which constituted 89.7% of total employment created an additional 591.4 thousand jobs. This sector has remained prolific in creating new jobs and wealth in the country (GOK Economic Survey, 2013:42).

Despite the pivotal role played by the SMEs, inadequate access to financing continues to be one of the major impediments to their creation, survival and growth in Africa (UNEP, 2007:6). In Kenya, SMEs financing constraints are attributed to high transaction costs, high collateral requirements and lack of guarantee credit instruments, as well as deficiencies in legal systems and regulatory policy problems. Wanjohi (2009:1) indicates

that SMEs in Kenya face numerous constraints in accessing affordable finance for small business primarily in issues of access to loans without collateral and access to the formal sector. Due to limited land ownership status in Kenya (Property Rights in Kenya), they are unable to provide collateral needed for loan requests. Despite the sector being the driver of the economy, there has been no proper understanding of its operations, ownership and source of capital, and the key challenges that they face. Consequently, only few graduate to be large enterprises (Wanjohi, 2009:1). In order to operate efficiently, SMEs require easy access to short and long-term capital (Wawire & Nafukho, 2009:145). In general terms, it appears that lending to SMEs is seen as a high business risk since most of these enterprises lack collateral (Kihimbo *et al*. 2012:303).

Improving access to finance for SMEs is critical for sector development. This will require that commercial banks, micro-credit institutions, community groups and Business Development Services (BDS) work closely together (Wanjohi, 2009:2). Microfinance organisations are part of the financial system in Kenya and mainly target SMEs. Consequently, an overview of the general financial sector is provided as well as a discussion of the microfinance sector. The background of MFOs, their operations, performance and challenges are also highlighted in this chapter, which will also provide a further justification of the need for this study.

2.2 OVERVIEW OF BUSINESS ENVIRONMENT IN KENYA

The business environment consists of the internal and external environmental factors affecting the performance of business enterprises. The business environment has a significant impact on the performance of small business enterprises. It comprises all factors or variables, both inside and outside the organisation that may influence the continued and successful existence of the organisation (Alkali, 2012:621). White (2005:1) states that for small businesses to achieve their objectives they have to strengthen their internal and external business environment. It is emphasised that there is a need to have policies and institutions that are supportive of business growth. Further, a vibrant private sector with firms making investments, creating jobs and

improving productivity promotes growth and expands opportunities for the poor (International Finance Corporation [IFC Report], 2011:1).

The environment in which businesses operate in Kenya has been changing significantly over the last two decades. This has been caused by political, economic, social, technological, legal and demographic factors as well as the various developments in the more immediate environment of doing business, namely, changes in the industry (Export Processing Zone [EPZ] Report, 2005:6). Changes in the business environment have exhibited both opportunities and threats to organisations. Small and large organisations have had to change their strategies in order to adapt to these changes. Organisations that have adapted to the changes over time have survived, while those that have failed to recognise and adapt to the changes have experienced survival challenges. This section will examine how the various environmental factors have affected organisations.

2.2.1 Political environment

Kenya has enjoyed a largely stable political environment since independence in 1963 compared to the neighbouring countries. Consequently, it has been seen as an economic hub for multinational companies and a preferred base for many humanitarian organisations working in the region, including United Nation agencies (EPZ 2005:7). A peaceful handover of power in 2002 was seen as a sign of political maturity and economic turnaround for the country (Private Sector Development Strategy, 2006:11). The government embarked on policies to fast-track economic development such as infrastructure development, revitalisation of critical government institutions and improved service delivery. Most organisations took advantage of the improved business environment, which resulted in excellent performance compared to previous years. For example, unknown East Africa Cables became a giant organisation currently quoted on the stock market (Aduda & Chemarum 2010: 166).

The gains made from 2002 to 2007 were greatly eroded by the post-election violence in 2007-2008 occasioned by disputes about the presidential election. As a result, many investors viewed the country as a high risk investment destination. In spite of the formation of the coalition government in February 2008 and the return to relative peace, political stresses persisted during the period. The private sector through the Private Sector Alliance played a major role in advocating for a stable political environment and business reforms (United State Agency for International Development Report [USAID], 2009:1). Despite the political situation during this period, the economy grew by an average of 5%. Infrastructure development was accelerated and a new constitution was delivered that provided huge opportunities for building an equitable democratic country (GOK-Economic Survey, 2001). The country managed to have peaceful elections in 2013 and the current administration is implementing ambitious projects in line with Vision 2030 and the Jubilee Manifesto. The economy is expected to grow at a rate of 7% per annum (GOK-Economic Survey, 2013:48). While the country is endowed with natural resources and a hard-working populace, political leadership has often failed to support people in exploiting these opportunities because of the keen focus on politics at the expense of country development (USAID, 2009:1). It is argued that government's commitment to the economic growth of the country and providing opportunities for its citizens focuses more on macro-economic conditions. They also pay attention to the laws, regulations and institutional arrangements that shape daily economic activities (IFC Report, 2011:12).

2.2.2 Economic environment

Kenya is the most developed economy in Eastern Africa. With a nominal 2011 gross domestic product (GDP) of USD 35.8 billion, it is also the economic, commercial, and logistical hub of the entire region (Embassy of United States, Nairobi, 2012:1). After independence Kenya promoted rapid economic growth through public investment, encouragement of smallholder agricultural production and incentives for private industrial investment, resulting in annual gross domestic product growth of an average of 6.6% from 1963 to 1973 (GoK, 2000). High economic growth experienced in the

1960s and 1970s was not sustained, as the economy grew by annual average of 1.5% from 1997 to 2002 which was below the population growth of 2.5% leading to decline in per capita incomes (GoK, 2001). According to Price Waterhouse Coopers (PWC) (2001), the decline in economic performance was largely due to inappropriate agricultural, land and industrial policies, compounded by poor international terms of trade and governance weaknesses.

During 2003-2007, the government began an ambitious economic reform programme which paid off as the economy started improving, with real GDP growth registering 2.8% in 2003, 4.3% in 2004, 5.8% in 2005, 6.1% in 2006 and 7.0% in 2007 (GoK, 2007b) . However, the economic effects of the violence that broke out after the 27 December 2007's general election, compounded by drought and the global financial crisis, brought growth down to less than 2% in 2008 (USAID, 2009:1). In 2009 there was a modest improvement of 2.6% growth which is still far below the rate required to meet the ambitious targets set out in Kenya's long-term development plan, Vision 2030 (Financial Sector Deepening Report, 2009b:2). The country's economy has improved and the growth is expected to be on average 6% per annum (Kenya National Bureau of statistics 2012). Overall, economic activity in 2012 showed improvement despite a myriad of challenges that include a turbulent global economy, delayed long rains and a weakened Kenya shilling. Real GDP expanded by 4.6% in 2012 compared to a growth of 4.4% in 2011 (GOK-Economic Survey, 2013:47).

The country's key economic challenge is to increase its real GDP growth rate. Sustained rapid economic growth is essential if the country is to address high unemployment that is in excess of 40%t and widespread poverty. Significant growth is also necessary for the country to achieve the goals outlined in its Vision 2030 development strategy, which aims to make Kenya a globally competitive middle-income country by 2030. Achieving high growth, however, will depend on improved economic governance and greater economic reform to improve the country's investment climate (Embassy of United States, Nairobi, 2012:1).

Some factors that competitively positioned Kenya economically include access to East and Central Africa markets, as the country is a member of the East African Community and COMESA, a relatively well-developed financial and stock market, improved infrastructure, and a capable workforce (Export Processing Zone Report, 2005:7). In spite of the setback of the economy due to the 2007 post-election violence, the Kenyan economy is competitive and the goal to become a middle-income country as stated in the blueprint for development (GoK 2007a – Vision, 2030) is achievable. In addition, the role of MFOs is more critical than ever before in facilitating people to create and expand businesses in the face of high levels of unemployment, especially among the youth population.

2.2.3 Legal environment

Despite policy statements of commitment by the government to create an enabling environment for businesses, legal aspects at operational level seem problematic. The legal business environment is characterised by a slow process of registration that is centralised in Nairobi, poorly administered licensing by central government, and delayed hearing and determination of commercial cases (USAID Report, 2009:1). In addition, the country lacks well-conceived competition and consumer protection policies, laws and practices. Hence, Kenya is one of the developing countries that have been labelled as having a poor legal and regulatory environment that has been hindering not only the growth of SMEs but also macro enterprises (Wanjohi, 2012:1). In addition, corruption in the legal system has been an impediment to business growth, as 87% of enterprises indicated they had paid some bribes to have things done (IFC Report, 2007). According to Wanjohi (2012:1), a study carried out in Nairobi Central Business District (NCBD), a great majority of entrepreneurs (84.2%) indicated that an unfriendly legal and regulatory environment was the most pressing challenge that faced entrepreneurs operating within the NCBD. The pressing legal and regulatory environment issues that affected business include:

- access to business permits that took long, is tedious, expensive and failure by the city council to provide services to match the fees paid;

- a high level of taxation and complicated system of tax computation;
- many fines charged for failure to meet business legal requirements.

The unfavourable regulatory environment does not only scare away potential investors but also squeezes revenues for those in operation. As such, there is a need for government and development partners to create a legal and regulatory business environment that is on a par with international best practices so that the country can attract the requisite private investment (Wanjohi, 2009:2).

In spite of the challenges in the business environment, Kenya has many natural advantages that allow larger businesses and industries to endure and operate profitably as they are able to influence action due to their size (Wanjohi, 2009:1). This scenario is not the case for SMEs hence they are more affected by the challenging business environment (White, 2005:3).

According to Mbithi and Mainga (2006:2), some of the legal reforms undertaken to improve the business environment include:

- the move to simplify business licenses;
- the amended Companies Act;
- the enactment of the Investment Promotion ACT (2004);
- preparation of the Sessional Paper No. 2 (2005) on Development of Micro and Small Enterprises for Wealth and Employment.

The legal reforms create opportunities for businesses but the authors mentioned above indicate that most of the entrepreneurs are not well informed of these reforms and how they affect their businesses .

The government in its blueprint for development has acknowledged the need for comprehensive legal reforms to allow the business sector to thrive in the country, but the reforms have been slow and their impact is yet to be experienced by the business sector (GoK, 2012). According to the IFC Report (2011:7), business countries that focus

on comprehensive reforms of the business environment reap benefits through accelerated growth of their economies. With the formation of the judicial service commission and reforms in the judicial sector, the business legal environment is bound to improve in the future.

2.2.4 Socio-cultural environment

The social-cultural environment includes the customs, moral values and demographic characteristics of the society in which businesses function. In the last two decades, Kenya has recorded high-level growth in the education sector (Kenya Education Sector Support Programme [KESSEP], 2005:1). The number of public universities has grown from three to more than six, and there are more than seven private universities and many accreditations from universities outside the country (GOK-Economic Survey, 2013). Increased investment in education has resulted in abundant and more skilled labour for organisations and businesses. The country has a large number of well-educated English-speaking and multilingual professionals, and a strong entrepreneurial tradition that is positive for investment. Further, Kenya is a young country with 70% of the population below 35 years (Embassy of United States, Nairobi, 2012:1).

Other developments on the social front include new requirements for organisations to adhere to strict health and safety standards, corporate social responsibility expectations, labour laws, more women in position of power, and affirmative action (PSDS, 2006). Other social factors affecting the business environment include security and corruption. The government from 2003 to 2007 demonstrated its commitment to fighting corruption, but this momentum has been lost (USAID Report, 2009). Corruption negatively affects businesses due to high operational cost as businesses have to give bribes to have things done, delay or deny services, and create unfair competition. SMEs are more severely affected than larger businesses since they lack the resources and power to influence others to get things done. The GoK Report (2003) has confirmed the regrettable state of corruption and insecurity, which results in a non-conducive

environment for the performance of business. However, security has improved, as indicated in USAID Report (2009).

2.2.5 Technological environment

The technological environment in Kenya contains many skills needed in all categories of technology. The country is open to all these depending on the business thrust. Greater emphasis than in the past has been placed on appropriate technology. This situation has changed with liberalisation paving the way for high investment in high-tech equipment, especially in the information and communication sector (ICT) (Export Processing Zone Report, 2005). Kenya enjoys communication technology like any developed country – there are four mobile phone companies, while fixed-line telephony is quickly fading in favour of wireless telephones, and the cost of communication is steadily reducing. There is increased access to affordable computers and software for business solutions. The country has a high population of skilled human resources in ICT and has been a source of ground-breaking technologies being imported by some Western countries, such as electronic money transfer using a mobile phone. The arrival of fiber-optic cable has reduced the cost of communication and has led to the creation of numerous ICT-related businesses. The current technological environment is conducive to business, though there is a need to formulate policies, laws and practices related to business opportunities brought about by technological advancement. The MFOs need to enhance their competitiveness by embracing ICT, leading to improved service delivery to customers and reduced cost of doing business (Central Bank of Kenya Report, 2009).

2.2.6 Ecological environment

The environment is an increasingly important issue in Kenya as those living below the poverty line directly and heavily rely on agriculture for sustenance. With only 8% of the land capable of being cultivated for crops and 75% of the Kenyan workforce engaged in agriculture, Kenyan farmers face growing problems of soil erosion, deforestation, water

pollution, and desertification. While the country is suffering from global warming, there are daily practices by farmers, manufacturers and businesses that threaten the environment and need to be dealt with (FSD, 2012:1). As noted by the late Wangari Mathai (Nobel laureate), Kenya is headed for ecological disaster due to failure to protect the country's forests, rivers, and wetlands from misuse and over-development. There is a scarcity of drinking water, crop failure leading to hunger, and challenges of hydro power generation resulting in power disruptions. While the leaders are expected to protect the natural resources through enforcement of a legal framework, corruption and partisan practices have prevailed (Ryu, 2012:1).

According to Wanjohi (2009:2), the majority of SMEs work in difficult environmental conditions that are characterised by uncollected garbage waste, inadequate water, regular power disruptions and unkempt working conditions. Environmental management education is lacking as the majority of the SMEs are not aware of the consequences of certain business activities to the environment.

Notable development in protecting the environment by the government is the creation of the National Environment Management Authority (NEMA). This authority is charged with the responsibility of safeguarding adherence to environmental regulations, thereby ensuring the symbiotic existence of humans and biodiversity, including concerns for sustainability of the environment. Depending on the nature of the business, annual environmental audits are carried out by NEMA authorised agencies to assess the business impact on the environment globally (NEMA Regulations on Environmental Management, 2007).

In conclusion, the business environment in which organisations operate in Kenya is competitive and volatile. Organisations need to arm themselves well to be able to react to these changes otherwise they could be pushed to extinction (Wajohi, 2009:1). The role of the government in improving the business environment is critical and that of the private sector to consistently advocate for a better business environment (FSD, 2012:1). The country needs to work towards enhancing a sustainable ecology by encouraging and enforcing sustainable agriculture, water and waste management, environmental

conservation and environmental education among other global best practices (United Nations Development Organisation [UNIDO], 2002). To operate in this volatile and competitive business environment, MFOs like any other organisations will require taking advantage of the opportunities and mitigating threats by formulating and implementing competitive growth strategies. Equally, SMEs require doing the same to create wealth and alleviate poverty.

2.3 OVERVIEW OF THE KENYAN PRIVATE SECTOR

The private sector has become the central focus for economic development in African countries in recent years. This can be partially explained by the failure of public sector-led economic development and increased globalisation (UNIDO, 2000). Globalisation has resulted in increased competition in markets around the world as companies are able to market their products and services across the globe.

According to GoK (2006), Kenya's private sector accounts for approximately 80% of the GDP and provides more than half of wage employment. Furthermore, it consists of a mixture of different firm sizes. The country has approximately 40,000 large and medium enterprises that contribute to an estimated 60% of the GDP. Over 1.7 million small and micro enterprises are found mainly in the informal sector, contributing approximately 20% to the GDP. Many of the large firms are subsidiaries of multinational corporations. Most formal firms, estimated at 76%, are to be found in Nairobi and Mombasa. On the other hand, informal sector enterprises, which constitute 76%, are more widely distributed in urban and rural areas. The majority of firms in both the formal and informal sector are engaged in either trade or services. The MFOs provide financial and business development services to small enterprises that contribute 20% to the GDP, and this demonstrates the importance of MFOs in the economic development of the country.

Through various government policy papers, the Kenyan government continues to express its commitment to private sector development and support (Mbithi & Mainga, 2006:3). Some of these policy papers are:

- Sessional Paper No. 1 of 1986 (1988);
- National Development Plan (1997-2001);
- Economic Recovery Strategy for Wealth and Employment Creation (2003-2007);
- Private Sector Development Strategy (2006-2010);
- Vision 2030, whose goal is to transform the country to a middle-income economy by 2030.

All the above policy papers and national development plans acknowledge the critical role of the private sector as a major prime mover of long-term and sustainable economic growth. The role of the private sector is primarily creation of wealth within a symbiotic environment and this contributes to income generation, employment, economic growth, savings, investment, and social welfare. Despite a rather challenging business environment, the private sector in Kenya and especially the SME sector is a major creator of jobs and income generation, and is the engine for national economic development (Wajohi, 2009:1).

The private sector has an umbrella body, the Kenya Private Sector Alliance (KEPSA), which brings together all private sector organisations in order to lobby for an enabling business environment capable of stimulating sustainable growth of businesses. The association has been active in engaging the government to undertake especially legal reforms affecting the business sector (KEPSA Report, 2013).

Since public investment is complementary to private investment, the government is encouraged to increase its investment in infrastructure and human resource capital development in order to increase the level of private investment, which will attract foreign direct investments (Ronge & Kimuyu, 2000). Although Kenya is a favourable destination for foreign and local investors within the region, there is a need to improve the business environment for existing and potential investors to increase investments in

the private sector. Some of the main constraints faced by both formal and informal sectors include corruption, poor infrastructure, high and numerous taxes and tax administration, crime and insecurity, and access to finance. The key constraints faced by SMEs in the informal sector include access to markets, access to credit, poor roads, access to infrastructure (power, roads and worksites) and limited skills (GoK, 2006).

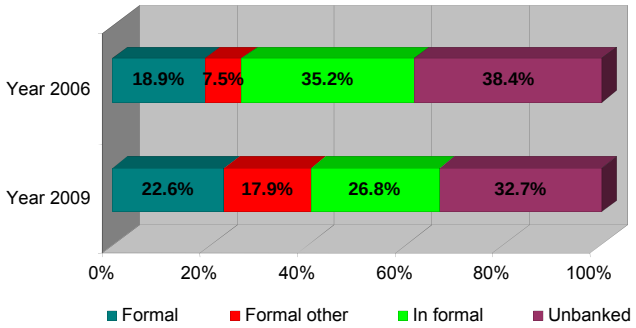
According to GoK (2006), micro and small enterprises are central to the link between the private sector and poverty reduction. They are more labour-intensive and promote equitable distribution of income since they are owned by poorer entrepreneurs, and a significant proportion being women. They are therefore important instruments for both income distribution and equitable gender participation. When effectively facilitated, SMEs could graduate into medium and large corporations with an influence that transcends national boundaries. Credit plays a vital role in supporting growth among businesses of all sizes and across all sectors from agriculture to services. The importance of financial services goes beyond credit (UNIDO, 2002). Secure savings rank among the most needed financial services by poorer households, allowing them to reduce their vulnerability to fluctuations in cash flow, cope with emergencies and accumulate funds for investments in the household or productive opportunities (Charitonenko & Campion, 2003:2). A broad range of financial services can make a difference for the poor, encompassing credit, savings, investment, money transfers and insurance (FSD Report, 2009a). Since MFOs support SMEs and poor households, there is a need for them to expand operations to serve a higher proportion of SMEs and economically active poor households. This will require formulation and implementation of competitive growth strategies.

2.4 OVERVIEW OF FINANCIAL SECTOR IN KENYA

The importance of the financial system to economic development is well understood, and Kenya's long-term plan for national financial transformation attests to this fact. Vision 2030 identifies national financial transformation as one of the six priority sectors under the economic pillar. The 2030 vision for financial services is to create a globally

competitive financial sector that will create jobs and promote high levels of savings to finance Kenyans' overall investment needs (GoK 2007a). According to CBK Report (2009:3), the Kenyan financial sector is one of the broadest and most developed in sub-Saharan Africa (SSA), with 45 financial institutions, including 43 commercial banks and two mortgage finance companies. These banks, along with the Kenya Post Office Savings Bank, make up Kenya's formal banking sector, and had served 22.6% of Kenya's adult population by December 2009. Non-bank financial institutions, including MFOs, savings and credit cooperatives, and mobile phone service providers serve another 17.9% of the population, bringing the total served by formal financial services to 40.5%. Another 26.8% of Kenyans rely on the informal financial sector, including NGOs, self-help groups, and individual unlicensed money lenders, and 32.7% of the population does not use any form of financial services. See Figure 2.1 below on financial inclusions in various sectors in Kenya.

Figure 2.1: Financial inclusions in Kenya



Source: CBK Report (2009) and FSD Report (2009b)

These figures show an improved position on financial inclusion compared to 2006 where 38.4% of the population was unbanked compared to 32.7% in 2009 (FSD Report, 2009b: 3). The unbanked comprise the population that is not receiving any form of financial services. Expanding access to financial services is strongly linked to economic development and poverty alleviation; hence there is a need for implementing strategies to ensure that financial institutions expand their services to the unbanked population. These figures show that only 22.6% of Kenyans access financial services from formal

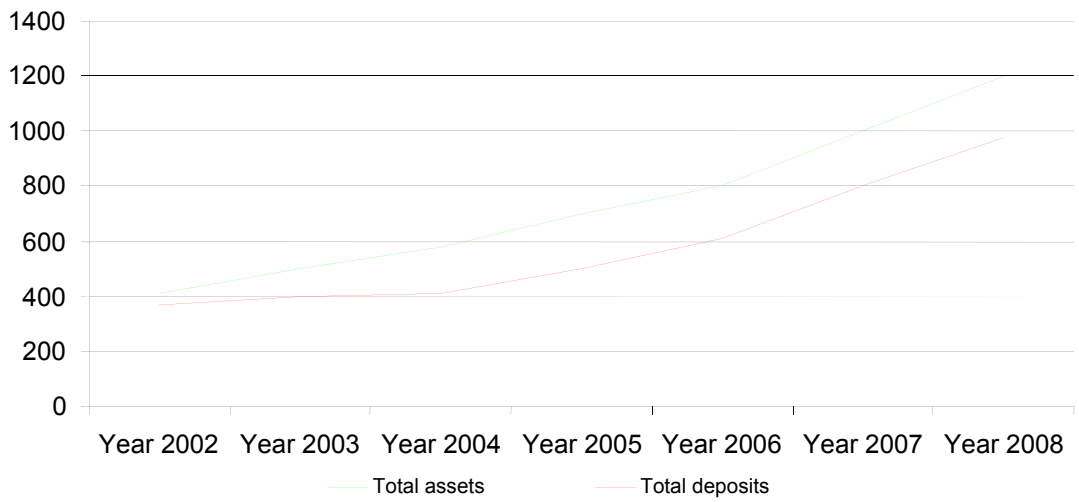
commercial banks. Since most of the MFOs are not regulated by the Central Bank, they fall under the category of informal financial sources that are providing financial services to 26.8% of Kenyans. Due to the flexible system of providing financial services, especially to SMEs and poor households, MFOs would be more effective in expanding the outreach to 32.7% of the unbanked, which demonstrates the need for the MFOs to formulate and implement competitive growth strategies. Indeed, given the shallow reach of traditional forms of banking, microfinance has played a central role in the evolution of Kenyan financial services. Four of Kenya's major commercial banks have roots in microfinance – two as building societies (Family Bank and Equity Bank), one as an NGO (K-REP), and another as a cooperative society (Co-operative Bank). These commercial banks, along with a wide variety of registered microfinance institutions, savings and credit cooperatives, and NGOs, make up Kenya's microfinance industry (Mix Market Report, 2009:1).

According to FSD Report (2009b:3), the financial retail industry has expanded over the last three years, and Equity Bank, with more than four million customers, has continued to lead. Safaricom through electronic money transfer M-PESA has entrenched its position as the most widely used financial service in Kenya. Safaricom had increased its agents to 15,216 nationwide, and as a result, it would on average take 15 minutes to reach the nearest agent, which has tremendously improved access to financial services. On average, the number of banking retail branches in the country grew by 12% in 2009. In addition, the banks have continued to expand the Automatic Teller Machines (ATM) network. All the efforts are meant to increase access to financial services. However, although Kenya's financial sector is the most developed in the region, it is far from achieving its full potential, and penetration remains low compared with international standards (FSD Report, 2009b: 17). Other current initiatives to improve financial penetration and governance of financial institutions includes: the Microfinance Act 2007 that is regulating microfinance institutions taking deposits; establishment of Sacco Societies Regulatory Authority (SASRA) to support SACCOs; establishment of Credit Reference Bureaus to allow banks share information; and amendment of the Banking

Act to introduce agency banking. In addition, the cost of borrowing has reduced, which allows more people to access credit services.

With the expansion of financial services, the financial institutions have performed well over the last few years. An increase in total assets, deposits, loan portfolio, number of customers and strong capitalisation above the regulatory requirements was reported by all the banks (FSD Report, 2009b:9). The figure below shows the trend of growth of bank assets and deposits from 2002 to 2008.

Figure 2.2: Growth in bank assets and deposits



Source: CBK Report (2009) and Mix Market Report (2009)

Figure 2.2 shows a positive outlook of the financial sector assets and total deposits as from 2002 to 2008. In addition, the financial sector GDP and return on equity continued to increase from 2002 to 2007. The high percentage of non-performing loans mainly due to the depressed economy before 2002 has continued to reduce over the years. The post-election violence had an effect on the performance of financial institutions in 2008, but the growth momentum picked as from 2009. With increased financial services and growth of the economy in Kenya and in neighbouring countries, the financial institutions have prospects of performing well in coming years. It is also noted that the financial

crisis experienced in western countries in 2009 had minimal effect to the performance of the financial sector in Kenya (Mix Market Report, 2009).

In conclusion, Kenya's financial landscape over the last ten years has changed dramatically. For example, a wider range of financial services is now reaching more Kenyans than ever before. There have been a number of factors responsible for these changes including developments in the wider economy, policy and regulatory reforms, increased competition and new technology (World Bank Report, 2013). The next ten years could see even greater change. With the promise of reduced transaction costs and a huge expansion in geographical reach, access to the financial system could increase tremendously. This will become possible with continued reforms at the macro level to support the financial sector policies and regulations and implementation of growth strategies at the micro level (Foundation for Sustainable Development [FSD], 2012). In this environment, growth of MFOs is possible and will depend on the organisations' operational capabilities.

2.4.1 MFOs in Kenya

2.4.1.1 Overview and background

Microfinance is the supply of loans, savings, money transfers, insurance, and other financial services to low-income people (Charitonenko & Campion, 2003:1). Further, microfinance organisations (MFOs) include a broad range of diverse and geographically dispersed organisations that offer financial services to low-income clients: non-governmental organisations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks (Consultative Group to Assist the Poor [CGAP], 2005:2). According to Mokaddem (2009:2), financial services available to the poor remain very limited, especially in Africa, and while best practices and solutions are known, the challenge is to bring them into widespread use by providing inclusive financial markets where the poor have access to the whole set of financial services. Microfinance can help to reach

the maximum number of poor clients, but needs to be integrated into the financial sector.

The microfinance sector as an industry is relatively a new phenomenon in Kenya which was started by a few agencies about 20 years ago. However, the sector has grown to gain the status of an industry in the last 10 years. Kenya Rural Enterprise programme (K-REP) can be considered the pioneer of NGO microfinance in Kenya. It is through K-REP financing activities during 1980s and 1990s that microfinance gained momentum in Kenya and beyond, as NGOs started microfinance programmes which were later separated from welfare programmes to become MFOs, focusing on financial services to SMEs and poor households. Most of the MFOs use the minimalist approach of providing financial services only, while non-financial services are provided by business development organisations. MFOs started using an adapted version of the Grameen Bank Group lending model, and indeed Kenya evolved as the Bangladesh of Africa, but also other models focusing on individual lending have evolved (Hospes, Musinga & Ongayo, 2002:23).

MFOs emerged to respond to high levels of poverty and unemployment. The high unemployment was caused by the collapse of some organisations after the economy was liberalised, leading to intense competition, the entrance of import goods, and government implementation of structural adjustment programmes that resulted in mass retrenchment of workers and froze employment by the government (Macharia, 2005:1). The situation pushed a bigger population of Kenyans into informal sector enterprises which were not being served by commercial banks. SMEs and the poor were perceived as risky segments and costly to process and follow small loans by commercial banks. In addition, transactional costs were high, and were unaffordable by this sector (DFID Report, 2004:5).

According to CBK Report (2007), the exact number of microfinance business practitioners operating country-wide is largely unknown since they are registered using different forms and others remain unregistered. However, according to CBK Report

(2009), there were an estimated 6913 registered micro lending organisations with total deposits of 82.3 billion Kenya shillings (equivalent to US$1.1 billion) and loans outstanding of 71.4 billion Kenya shillings (equivalent to US$940 million) with a client base of 4.9 million people.

There is an Association of MFOs (AMFI) but this has only attracted larger MFOs and some banks. Most of the studies that have been carried out focused on MFOs that were registered by AMFI, but the majority of the MFOs operating in the country are not yet members of AMFI. AMFI members include deposit taking MFOs (KWFT and Faulu) and three of the four commercial banks providing microfinance services, as well as another 38 members as of May 2010, including the Kenyan Post Office Savings Bank, two insurance companies, Barclays Bank of Kenya, and 34 NGO MFOs and credit providers (Njoroge, 2010:1). AMFI reports that its membership serves over 4 million clients with an outstanding loan balance of over 300 million US dollar. These institutions and figures do not include SACCOs, whose number the Central Bank estimates as in excess of 5000, at least 3500 of which are active. The number of MFOs registered under different forms is expected to be high as well as the sector level of penetration (AMFI, 2012). For example, FSD Report (2009a:4) indicates only 22.6% of the population can access financial services from formal banking institutions while 44.7% access financial services from MFOs and other credit institutions. From these statistics, it is clear that a greater proportion of Kenyans are served by MFOs and not formal commercial banks.

For over 20 years, MFOs developed and grew through grant funding from donor partners. The situation prevailed up to the 1990s when donors started pushing them to move towards sustainability in their operations. The move was challenging for most organisations that were used to receiving funds from donors. In a desperate search for capital, K-REP became the first to convert into a bank, two more building societies followed and Faulu became the first MFO globally to issue a bond of 500 million Kenya shillings in the capital market in 2005 (Macharia, 2005:1). Inadequate financial support from the donors meant that the institutions had to improve their operations to enhance their financial operational sustainability. Access of funds from the public sector has

increased scrutiny of MFOs and pressure to declare dividends to their shareholders. It means that these organisations have to employ effective management practices such as strategic planning to meet expectations of their clients and shareholders, and sustain their growth (Pischke, 2001:2).

MFOs have grown to become a sector on their own, and have proved that financial services can be provided profitably to low-income markets and smaller enterprises, but the challenge is in opening up these markets by formulating pro-poor financial policies and systems (Financial Sector Deepening Report [FSD], 2009:9a). The increased number of MFOs and expansion of operations in the country has reduced the proportion of the unbanked population, enabling poor households and SMEs to access financial services and participate in economic activities resulting in increased household incomes and employment opportunities (CBK Report, 2009:5). Further, it is noted that MFOs between 2006 and 2009 increased their market share from 1.7% to 3.4%, which was an impressive growth (FSD Report, 2009b: 7). This scenario shows that MFOs are making a great contribution in expanding financial inclusion to SMEs and poor households.

Despite the growth of MFOs, lack of access to credit is almost universally indicated as a key problem for SMEs as most of them operate on self-financing or borrowing from friends and relatives (Kihimbo *et al*., 2012:303). As a result, SMEs are unable to access technology of choice, and the growth of the enterprises is limited due to inadequate equipment and working capital (Wanjohi, 2010:1). In addition, lack of long-term credit for small enterprises forces them to rely on high-cost short-term finance. Other financial challenges include high cost of credit, high bank charges and fees. Financial constraint remains a major challenge facing SMEs in Kenya and demonstrates the need for reforms in the financial sector and growth of MFOs (Wanjohi & Mugure, 2008:23).

In spite of the government's policy commitments in support of MFOs, the sector has remained unregulated over the years, and the lack of a legal framework affects growth of the sector since most investors apart from donors cannot risk investing their funds in a sector that is not effectively regulated (Omimo, 2005:4). The intense lobbying by

stakeholders in the sector resulted in the enactment of the Microfinance Act of 2007. The Central Bank of Kenya (CBK) regulates MFOs that wish to convert into deposit-taking MFOs. Suffice it to say that only banks are allowed by the Banking Act to take deposits from their customers. Failure by MFOs to take deposits from their customers affects their liquidity and their ability to expand their outreach (Macharia, 2005:1). The Central Bank of Kenya only regulates deposit-taking MFOs. The three licensed MFOs are Kenya Women Finance Trust, Faulu and Small and medium Enterprise program (SMEP). According to the CBK, others are in the registration process (CBK Report, 2009). A key challenge would be to have appropriate regulation for non-deposit taking MFOs since they are the majority due to the challenge of compliance with the current law. Regulation of SACCOs has been challenging especially due to poor governance, and the establishment of the Sacco Societies Regulatory Authority (SASRA) to oversee their operations is a welcome move by the Ministry of Cooperatives (Omimo, 2005:2). From the analysis, the regulatory environment of the MFOs is improving, but it shows an urgent need to develop an alternative regulatory framework for non-deposit-taking institutions, and also to enable the deposit-taking MFOs to provide additional banking services to their clients.

Regarding the capital structure of the MFOs, they differ substantially among MFOs. Deposits in 2008 and 2009 accounted for 60% of the source of funding and this insulated the MFOs from the global financial turmoil in 2008. However, due to the post-election violence in 2008, most of the MFOs resorted to borrowing, to refinance their clients whose businesses had been destroyed (Mix Market Report, 2009:1). There is a wide range of financial options available to MFOs in Kenya, and the private financial sector makes up nearly 40% of debt financing. Government and development finance institutions (DFIs) comprise nearly a third of all debt funding, while various mutual and foundation funds account for another quarter of borrowings by MFOs (Mix Market Report, 2011:10). A study of 86 MFOs by CGAP (2005:8) shows that MFOs finance their activities with funds from various sources such as debt deposits from clients and borrowings from banks and other financial institutions and equity. While most of MFOs around the world rely heavily on donations and retained earnings to fund their activities,

African MFOs fund only 25% of assets with equity, and 72% with clients' deposits as their main source of funds, which is significantly higher than other MFOs from other global regions (Lafourcade, Isern, Mwangi & Brown, 2005:8). With increased demand for higher loans, African MFOs are likely to experience a liquidity problem because their main source of funds is from clients' deposits.

2.4.1.2 Performance of MFOs

Overall, Kenyan MFOs are dynamic and growing, and have increased their activities to meet the needs of their clients (CGAP, 2005). The same observation is made of other MFOs in Africa, as noted by Lafourcade *et al*. (2005:1) that African MFOs are dynamic, offer a variety of financial services to the members and especially have savings used as a source of funds for lending. The authors further indicate that African MFOs are among the most productive globally, as measured by the number of borrowers and savers per staff member. MFOs in Africa also demonstrate higher levels of portfolio quality, with an average portfolio at risk over 30 days of only 4.0%. A comprehensive analysis of performance of all MFOs is difficult because a central database and a system for information collection are lacking. This is confirmed by the CBK that indicates that exact numbers of MFOs are not known (Mix Market Report, 2011:10). Researchers, CBK and other government agencies have relied on MFOs registered by AMFI to collect data. However, most MFOs are not members of AMFI and are not affiliated to any other national network. Hence, information on MFOs performance in this section will rely on partial data of the MFOs registered by AMFI and on general information on MFOs performance in Africa and globally.

According to CBK Report (2009) as of December 2008, the 36 retail MFOs (excluding commercial banks) registered with AMFI had 1.44 million active deposit accounts/clients at their 825 branch offices, an increase of over 400,000 from the previous year. Excluding commercial banks, the value of total deposits was 202 million USD, up from 151 million USD the previous year. These institutions had 1.27 million active loan clients in aggregate at the end of 2008, an increase of over 30% from the previous year, and a

total of 443 million USD in gross loan portfolio. Additionally, according to Mix Market Report (2011:1), as of December 2008, the 16 Kenyan MFIs reporting to Mix Market served 1,163,368 borrowers with a combined loan portfolio of over 780 million USD, and had 5,008,427 deposit accounts with an aggregate deposit base of over 880 million USD. The 11 MFIs reporting consistently from 2006 to 2008 represented 88% of borrowers and 95% of deposit accounts. Among these reporting MFIs, gross loan portfolio has more than tripled in USD terms since 2006, led by strong portfolio growth by Equity Bank, which expanded its gross loan portfolio by more than 400%, and KWFT and Opportunity Kenya, both of which nearly doubled their loan portfolios from 2006 to 2008. Deposits also grew sharply from 2006 to 2008, with the number of accounts nearly doubling, and an aggregate deposit base growing nearly threefold in USD terms across the two years (Mix Market Report, 2011:1). Growth experienced by Kenyan MFOs is similar to that in other parts of the globe, as MFOs had provided financial services to 128 million of the world's poorest families by the end of 2009 which showed the target to provide 175 million poorest families with financial services by 2015 is on course. However, the progress of achieving the second goal of having 100 million families move out of poverty was limited (Market Mix Report, 2009).

Further, according to CGAP Report (2009), the average loan balance per borrower rose sharply from 2006 to 2008, while average deposit balance per depositor also increased. Additionally, household loans accounted for approximately half of the number of borrowers reported for 2008, while micro-enterprise loans accounted for 44% of the loan products issued, and 60% of loans were made to women. This growth in loan portfolios and deposits reflects a general deepening of the Kenyan financial sector since 2006, as major financial institutions' have moved down-market and traditional microfinance institutions have grown stronger and more competitive.

The rapid growth exhibited by Kenyan MFOs is somewhat similar in other African countries. According to a study carried out by Lafourcade *et al*. (2005) on 86 MFOs in Africa, the total number of borrowers and savers among MFOs had doubled from 2001 to 2003. However, growth varied by MFO type, as regulated MFOs increased most in

numbers of borrowers and savers. On an annualised basis, the number of borrowers and savers grew by 51% and 66%, respectively, for regulated MFOs, compared with 22% and 30%, respectively, for unregulated MFOs and 13% and 18%, respectively, for cooperatives. These findings indicate the need for all the MFOs to be effectively regulated to gain client and investor confidence and hence hasten their growth.

According to the FSD Report (2009b:12), the return on assets among Kenyan MFOs has fallen since 2006. The ROA in 2006 was 1.8% and reduced to 1.5% in 2007 and further to 0.9% in 2008. The dramatic decrease in 2008 can be associated with the effects of the post-election violence. In recent performance some MFOs declared losses after tax while others showed substantial growth in profitability over the three-year period ending in December 2008. The report also indicates that profitability of Kenyan MFOs has been dampened by rising expenses (operating, financial, and loan loss provisions) while financial revenues have remained relatively flat as a percentage of assets (Market Mix Report 2009:1). According to Lafourcade *et al*. (2005:10), increasing operating costs account for the bulk of the increase in expenses, and were particularly high among smaller NGO MFOs. Operating expenses as a percentage of loan portfolio as well as cost per borrower have risen steadily over the time, especially for smaller MFOs and at a faster rate than in the wider SSA region. Increased expenses and decreased efficiency are symptoms of increasing risks. The risk levels of Kenyan microfinance loan portfolios have increased dramatically over the past two years because of political instabilities that complicated efforts to collect on non-performing loans, a downturn in the economy caused by the global recession, and the rapid expansion of loan portfolios in the highly competitive and lucrative environment. Increasing risk leads MFOs to spend more time following up on loans, which increases expenses and decreases efficiency and productivity. The high levels of write-offs were most prevalent among smaller MFOs. The poor performance of MFOs in Kenya is similar to that of MFOs in Africa (Mix Market Report, 2009).

According to CGAP Report (2005:9), MFOs in Africa report the lowest average rate of return on assets of 2% compared to other global regions, which is insufficient to cover

the high operating expenses. This is in spite of African MFOs being excellent in savings mobilisation and high quality loan portfolios. The high operating costs are associated with weak infrastructure (communications and road), low average population density combined with predominantly rural markets and high labour costs.

With decreasing efficiency and productivity, and an increasing level of portfolio at risk, there is a need for MFOs in Kenya to review their current situation and formulate strategies to address emerging issues.

2.4.1.3 Challenges experienced by MFOs

Despite the robust growth of the MFOs, they continue to experience some challenges which if addressed would improve their performance to serve a greater proportion of the unbanked population and generate profits.

On the legal front, the law on Micro Finance enacted in 2007 is considered a major step in setting up a sector legal framework (Omimo: 2005:3). Further, the establishment of Sacco Societies Regulatory Authority (SASRA) in 2009 is a step towards securing an effective management of the SACCOs. Despite the progress made towards regulation of MFOs, the majority are still unregulated mainly because they are unable to raise the capital needed (CGAP, 2005). Lack of a comprehensive regulatory environment for all MFOs negatively affects their operations and reduces their opportunity to attract capital from investors as the sector is perceived to bear higher risks. Prudential regulation is needed to protect the financial system, protect depositors, and manage the money supply. Therefore, additional sector guidelines and overall coordination are required to promote its growth (Mokaddem, 2009:8).

MFOs in the 1980s and 1990s mainly operated using grant funds from donors whose objective was to alleviate poverty through financial support of SMEs and poor households (Macharia, 2005:1). However, as from the late 1990s, donors are reluctant to provide financial support to MFOs and most of the MFOs are not prepared to

financially sustain their operations. The change of approach to supporting MFOs was a result of several studies that showed that provision of grants does not stimulate entrepreneurial activity, hampers the financial sustainability of the provider of financial services, and undermines the development of a healthy local financial infrastructure and economy (Saban, 2005:1).

Due to failure to access grants from donors, some of the MFOs are accessing funds from commercial banks at high interest rates since clients deposit are insufficient to fund the loan portfolio asset. However, only regulated MFOs are able to source funds from banks and other potential investors, so NGOs and other unregulated MFOs often face challenges in attracting funding from banks and other potential investors because they have non-corporate ownership structures and unclear legal status. Moreover, they often are poorly leveraged because they are unable to mobilise savings (Mix Market Report, 2011:10). Cooperatives sometimes find it difficult to attract equity investment given their non-corporate ownership structure and certain limits on membership, share purchases, and voting rights (CGAP, 2005:17). Additionally, where MFOs are dependent on domestic and foreign wholesale funding, they are vulnerable to foreign exchange and liquidity risks which they have little capacity to manage appropriately (IFC, Report 2010). Hence, most of the MFOs are blocked of funds for on-lending and this limits their outreach potential and ability to achieve financial operational sustainability and increase the loan size for their clients. Mokaddem (2009:8) supports the view that MFOs have inadequate funds to operate in rural areas in Africa where the poorest people live.

According to Brau and Woller (2004:6), unlike formal sector financial institutions, the large majority of MFOs are not "sustainable" where sustainability is equated in microfinance with financial self-sufficiency. Instead, most MFOs are able to operate without covering their costs. Morduch (2000) reports a rough estimate that only 1% of MFOs are currently financially self-sustainable and that no more than 5% will ever be. According to institutionalism paradigm authors, such as Morduch (2000:618), MFOs should be able to cover operating and financing costs with generated revenue. MFOs in Africa have the highest operational costs due to weak infrastructure (communications

and roads), low average population density combined with predominantly rural markets, and high labour costs (CGAP Report, 2005). Conning (1999), argues that MFOs have to charge relatively high interest rates to cover the high costs of administration.

Navajas (2000:336) indicates that MFOs that have achieved true financial self-sufficiency have tended to lend to borrowers who were either slightly above or slightly below the poverty line in their respective countries. These MFOs are able to capture economies of scale by extending larger loans to the marginally poor or non-poor. However, Milgram (2001:213) warns that MFOs that rush to self-sufficiency result in not targeting the poor. In spite of this debate, the need for MFOs to attain operational self-sufficiency is paramount since most of them do not receive subsidies. It is observed that the smaller unregulated MFOs are more affected as they have higher costs and smaller operations. They will require scaling up, transforming, or merging with other institutions to achieve levels of efficiency that can guarantee their continued operation.

MFOs are experiencing intense competition from commercial banks. Commercial banks previously shunned SMEs and poor households, and considered them economically non-viable target segments. However, some MFOs through the use of innovative approaches to mobilise savings and provide credit to these segments, are realising good profits (UNCDF, 2006:1). They have proved to commercial banks that the poor are a viable economic target group. The United Nations Development Programme (2001) indicates that 63 of the world's top MFOs have an average return on assets of 2.5%, which compares favourably with commercial banks. With reduced government domestic borrowing and realisation that lending to lower economic groups is potentially viable, commercial banks both local and international, are competing for business from the poor and the SMEs. They are using proven methods by MFOs to reach the lower economic income groups. Some banks are even poaching staff from MFOs who are experienced in mobilising savings and lending to lower economic segments. In spite of the competition waged by commercial banks, MFOs have loyal clients and proven lending methods and practices, and are capable of competing favourably if competitive growth strategies are formulated and implemented (Omar & Nzomo, 2003). In addition,

the competition has intensified due to new entrants who are attracted by the current microfinance law regulating the sector.

Microfinance organisations provide similar products and services to their customers. The fundamental ones are savings, loans and insurance, but enterprise lending has remained the dominant product. MFOs have been criticised for lack of product diversity. They are limited to simple short-term credit instruments which do not fully meet the needs of poor households and SMEs, but savings, insurance and long-term credit products are badly required (IFC Report, 2011). Nourse (2001) has advanced an argument that there is a need for savings and insurance services for the poor, and not just credit products. Eyiah (2001:512) also indicates that MFOs should develop tailored lending services for the poor instead of rigid loan products. Hence, MFOs are challenged to increase the range of products to address the needs of the poor and SMEs.

From the above analysis, MFOs in Kenya are experiencing various challenges that will require a sector-wide approach and participation by all key stakeholders. However, some actions from individual MFOs such as development and implementation of competitive strategies to improve their performance and survival in the competitive environment are imperative.

2.4.1.4 Strategy implementation by MFOs

There is some literature about financial services provided by MFOs to SMEs and to poor households and on the most critical performance indicators such as efficiency, productivity and quality of loan portfolio, but there is limited literature on non-money aspects of MFOs such as strategic planning and implementation. The viability of MFOs needs to be looked at from a dimension that is far broader than just money issues. This section will attempt to explore MFO's issues related to strategy implementation, which is the key area of focus for this study.

Ideally, a national microfinance strategy would provide a roadmap about addressing priority sector issues to guide MFOs to develop their own specific strategies aligned to the national strategy. Additionally, increasing number of countries are developing national microfinance strategies. Over 30 countries globally have done so (CGAP, 2007:2). The need to develop national microfinance strategies is because of increased visibility of the sector, its critical role in poverty alleviation, the need for a sector-wide approach and policy work. However, despite the Kenya government commitments through policy papers to support the microfinance sector a national strategy to guide its development has not yet been developed (FSD, 2009b).

According to an institutional assessment report by Micro Save (2007:6), some MFOs fail to formulate strategic plans even though the board of directors and management are clear about the direction the organisation should take A diagnostic assessment of 20 MFOs by UNDP in 2010 across all the regions of Uzbekistan has revealed that the majority of the organisations lack a clear vision of their further development and do not apply the tools of strategic planning to improve their performance. In addition, an IFC Report (2011) indicates that due to MFOs' failure to develop strategic plans, their outreach is still small compared with their potential market. Considering the high demand for financial services by SMEs and poor households, MFOs require to increase their outreach. However, a rapid growth puts additional pressure on organisational systems and changes their financial dynamics. Lack of effective strategic planning and projection tools in MFOs can negatively impact their outreach. It is imperative that capacity building for MFOs in strategic planning and implementation be enhanced. This scenario justifies the present study, which will focus on MFOs that have adopted a strategic planning culture.

There is limited literature on the strategy implementation practices in MFOs. Indeed Brau and Woller (2004:4) state that scholarly interest in microfinance has lagged behind industry development. However, Navajas (2000:335) notes that large MFOs have adopted a culture of strategy formulation and implementation at an early stage and hence are able to maximise impact, target the poor, and achieve financial self-

sufficiency. These large MFOs are slowly tapping resources from the commercial market through instruments such as commercial bank loans, commercial paper, bond financing, and equity financing.

Although the culture of strategic management is not so popular with MFOs, the benefits of formulating and executing successful strategies by MFOs cannot be over-emphasised. Studies carried out by David (2000:1) on MFOs in the Philippines that had formulated successful strategies showed that they were more competitive than their peers. They had increased operational and financial efficiency, their quality of loan portfolio was better, they achieved higher client satisfaction and were able to respond to environmental and industry changes; he concluded that successful MFOs are those that focus their efforts strategically.

According to Morduch (2000), strategic planning formulation and successful implementation among MFOs is the key to enhancing their competitiveness and institutional sustainability which can improve the provision of financial services to the poor. Further, Conning (1999) indicates that a successful strategy adds value for the targeted customers over the long run by consistently meeting their needs better than the competition does. According to an IFC Report (2011:3), strategy formulation and successful implementation are important as MFOs grow from very small operations into markets of increasing competition.

Despite the limited literature on strategic management practices in the microfinance sector, the need for the sector to adopt the culture of strategic management is urgent to enable the sector to expand the outreach and achieve financial sel-sustainability in a well-defined direction. This point is highlighted in the CGAP Report (2005:12) that indicates that strategy formulation and successful implementation are required by MFOs to reach their goals and targets and improve their performance.

2.5 CONCLUSION

It is clear that the business environment, especially its legal and political aspects, requires greater improvement for the private sector to thrive in Kenya. Further, the private sector plays a critical role in the country and is the engine for economic development. The role of SMEs cannot be under-estimated, since the sector contributes 20% to the GDP and provides employment to 75% of the workforce. The role of MFOs is crucial in providing financial services to this sector. Financial access to the Kenyan public has improved over the years, but efforts are required to reach the unbanked. The microfinance sector is expanding but most of the MFOs are not sustainable due to high operational costs and lack of sufficient capital to finance their growth. There is a need for a sector-wide approach in addressing the various challenges facing MFOs in Kenya. Further, it appears that most of the MFOs have not adopted a strategic management culture, while the need to develop and implement competitive strategies in the current environment cannot be over-emphasised. Limited literature related to strategic management practices in the microfinance sector calls for greater attention to this area of research – hence the need for this study.

Chapter 3 that follows focuses on the strategic management discipline, with specific attention to strategy implementation in organisations.

CHAPTER 3

THEORETICAL OVERVIEW OF STRATEGY IMPLEMENTATION

3.1 INTRODUCTION

In spite of the high rate of strategy implementation failures, there is limited literature and focus regarding this topic. According to Kazim (2008:1564), a strategic plan prepared through a sophisticated process that involves consultants and senior managers is likely not to fail by itself, but failure occurs during the strategy implementation process. Strategy formulation gets most of the attention by managers and strategy thinkers while strategy implementation is often side-lined. Okumus and Roper (1999) hailed the importance of the strategy implementation process, but flagged the lack of attention by managers and researchers, as literature is skewed towards strategy formulation and strategy content rather than the actual implementation of strategies. Despite the neglect by researchers and managers, many challenges are experienced in the course of strategy implementation (Miller, 2002). Mankins and Steel (2005) indicate that more than 40% of the value anticipated from the strategic plan is never realised. From these arguments there is evidence that barriers to strategy implementation make it difficult for organisations to realise sustained success. Hence, bridging the gap between strategy formulation and implementation is a challenge that organisations and scholars must address.

This study is focusing on the subject of strategy implementation owing to the apparent need for increased contributions in the field of strategy implementation. The aim of this chapter is to highlight strategy implementation, which is the core area of the study in the discipline of strategic management, and provide clarifications to key concepts used such as strategic management, strategy and competitive strategy. In addition, an overview of strategy implementation is provided that includes its definition, relationship between strategy formulation and strategy implementation, process of strategy implementation and barriers to strategy implementation.

3.2 CLARIFICATION OF KEY CONCEPTS

3.2.1 Strategic management

The meaning of strategic management has never been definitive although there is a degree of consensus about several key characteristics that together present a coherent model of strategic management. Identification of these key features is essential in an effort to link strategy implementation to the whole discipline of strategic management. Based on the view of Ansoff (1998) strategic management is seen as a systematic approach to positioning and relating the organisation to its environment in a way that assures its continued success, and make it secure from surprises (Ansoff's work is often referred to as the birth of strategic management theory). Kevair (2007:1) remarks that strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that enables an organisation to achieve its objectives, and is the highest level of managerial activity initiated by the board of directors and top management. Further, Wells (2009:4) indicates that strategic management is a systems approach to identifying and making the necessary changes and measuring the organisation's performance as it moves towards its vision and comprises five processes namely: pre-planning, strategic planning, deployment, implementation and measurement and evaluation. This definition is shared by Cameron, Taggart and Tyndall (2000:1) that strategic management is the process of articulating a future vision of accomplishment of an organisation, and includes planning, directing and controlling organisations' entire range of activities to work towards the desired state or position.

According to Hitt, Hoskisson and Ireland (2009), the strategic management process is the full set of commitments, decisions and actions required for an organisation in order to achieve strategic competitiveness that earns above-average returns. The first step in the strategic management process is to analyse its external and internal environments to determine its resources, capabilities and core competencies and move to formulating its vision, mission and strategy. Alkhafaji (2003:247) indicates that strategic

management comprises environmental analysis, formulation and implementation of strategy and its evaluation and control. The author also indicates that the components are interrelated and continuous.

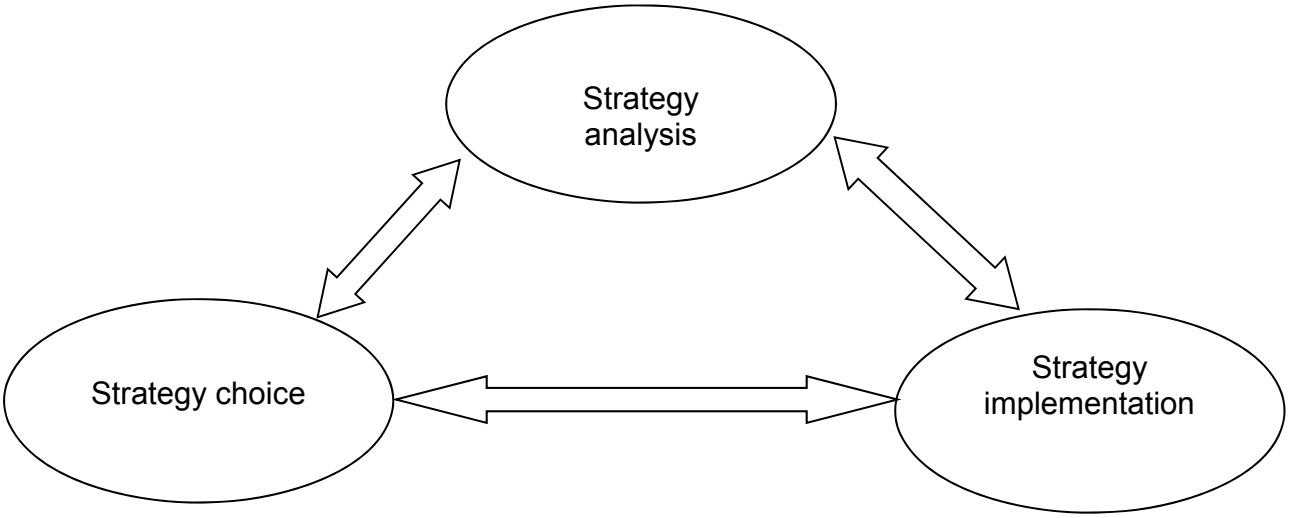
Olsen, West and Tse (2008) define strategic management as “the ability of the management of the organisation to align it with the forces driving change in the environment in which the firm competes”. To achieve this alignment, management must appropriately invest in competitive methods that maximise financial value, create a business structure that facilitates the effective allocation of resources, have the ability to identify change-driven opportunities, and identify methods that achieve competitive advantage.

Johnson and Scholes (2002) explain that the strategic management process is about taking “strategic decisions” and has three main components namely:

- *Strategic analysis* (that comprises internal and external analysis of the business to identify strengths, weaknesses, opportunities and threats);
- *Strategic choice* involves understanding the nature of stakeholders' expectations, identifying strategic options, evaluating and selecting strategic options;
- *Strategy implementation* is the third component and involves translating the strategy into action.

The above view is supported by De Wit and Meyer (2004) and Dess and Lumpkin (2003). These authors add that these three processes are interdependent, so that even if one process was successful, it does not guarantee success to the organisation as a whole. Figure 3.1 below shows the interaction of these three processes.

Figure 3.1: Basic strategic management process



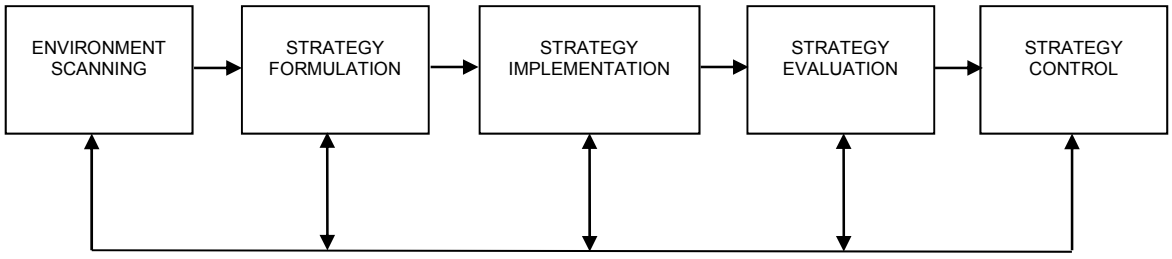
Source: Johnson and Scholes (2002) and Dess and Lumpkin (2003)

According to Astely (1985:497), an academic field has socially negotiated boundaries and only exists if a critical mass of scholars believes it to exist, and adopt a shared conception of its essential meaning. This view is shared by Kuhn, (1962) and states that an academic field is a socially constructed entity, just like a formal organisation which can be identified and defined. Strategic management represents a case of an academic field whose consensual meaning is fragile and even lacking (Nag, Hambrick & Chen 2007:935). Although the field is young having emerged in 1979, there is a need to define its meaning and scope, especially for the sake of upcoming researchers.

Despite lack of consensus on meaning and scope, strategic management has maintained its collective identity and distinctiveness, since there is a strong implicit consensus about the essence of the field even though there is ambiguity about its formal definition. This is illustrated by the different array of definitions given by various researchers. The above definitions imply that the focal point of strategic management is the organisation, its external environment including competition and the efforts of achieving superior performance that is the ultimate objective of strategic management.

For the purpose of this study and based on the definitions discussed above, strategic management is regarded as *a continuous process comprising five interrelated steps namely: environment scanning, strategy formulation, strategy implementation, strategy evaluation and strategy control*. Figure 3.2 below shows the five interrelated processes of strategic management.

Figure 3.2: Strategic management processes



Source: Own construct

Derived from the strategic management definitions provided above; the meaning attached to each step is discussed in Table 3.1

Table 3.1: Different stages of strategic management process

Stages of strategic management process	Explanations on the different stages of strategic management process
Environmental scanning	This refers to the process of collecting, scrutinising and providing information for strategic purposes. It analyses external and internal factors influencing an organisation. Information from an environmental scanning should be evaluated and updated on a continuous basis.
Strategy formulation	This is the process of deciding the best course of actions for accomplishing organisational objectives and hence achieving the organisational purposes. After conducting environmental scanning, corporate, business and functional strategies are formulated.
Strategy implementation	Strategy implementation implies making the strategy work as intended or putting the organisation's chosen strategy into action. Strategy implementation includes designing the organisation's structure, distributing resources, developing decision making process, and managing human resources.

Strategy evaluation	The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organisational strategy as well as its implementation meets the organisational objectives.
Strategy control	This is the use of information received from strategy evaluation that allows managers to have better control over the strategy implementation process. In addition, an organisation using this information is able to have better plans and improve the way they are implemented

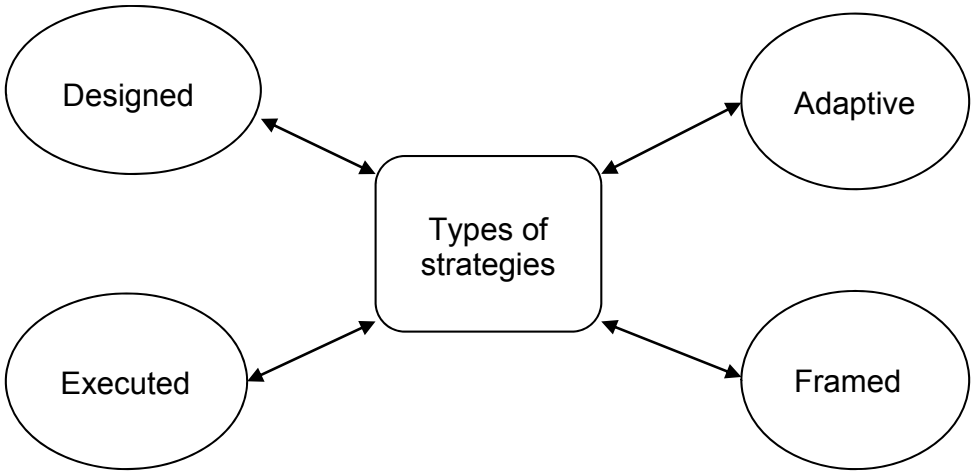
Source: Own construct

The focus of this study is on strategy implementation but will focus on issues that affect implementation stemming from the other stages of the strategic management process as well.

3.2.2 Strategy

Although strategy is a word commonly used in today's business world, there is no acceptable universal definition (Abby & Nicholas 2002:20). Jonas (2000:141) notes that the word "strategy" has totally different meanings to different organisations but in the sea of misunderstanding, what can be agreed upon is that successful business strategies are required and without them organisations would perish. Jonas (2000:141) further defines strategy as a plan, method or a series of actions for obtaining a specific goal or intended results. A business strategy has to be formulated, implemented, managed and monitored just like any other business process. Strategies fall under four categories, as indicated in Figure 3.3 below.

Figure3.3 Types of strategies



Source: Jonas (2000)

Table 3.2 below provides details on the meaning attached to each of the four types of strategies.

Table 3.2: Different types of strategies

Types of strategies	Meaning attached to the strategies
Designed strategy	This is the most traditional type, organisation direction is well defined, strategy is written and communicated to all stakeholders
Adaptive strategy	Unlike designed strategy, this one evolves over time due to pressure from inside and outside the organisation.
Framed strategy	Set of actions with little or no detail and instead of having defined path the strategy start with loose initiatives/actions and individuals determine their own course in order to achieve the desired result
Executed strategy	This is either designed or adaptive strategies that have consistently formed a pattern of behaviour or actions over time and have been integrated into the organisation way of doing things

Source: Jonas (2000)

According to Christensen and Donovan (2003), strategy is the long-term view on where the organisation wants to be within a specific period. Jonas (2000) concurs that there

are four categories of strategies as stated above. Stewart (2008:1) shares a similar view by stating that strategy is the long-term plan of action designed to achieve a specific goal or set of goals or objectives, and is a management game plan for strengthening the performance of the organisation. Nichols (2000:3) indicates that strategy is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. El-kadi (2008:1) states that strategy is a general direction set for the organisation and its various components to achieve a desired state in the future, and results from the detailed strategic planning process.

Johnson and Scholes (2008) define strategy as the direction and scope of an organisation over the long term which achieves advantage for the organisation through its configuration of resources within a changing environment to meet the needs of the markets and to fulfil stakeholders' expectations. Table 3.3 below suggests that strategy exists at different levels of the organisation.

Table 3.3: Levels of strategy

Levels of strategy	Explanation of the level
Corporate strategy	It is concerned with the overall purpose and scope of the business to meet stakeholder expectations. It is heavily influenced by investors in the business, and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement".
Business unit strategy	This is more concerned with how a business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting needs of customers, gaining advantage over competitors, exploiting or creating new opportunities.
Operational strategy	This is concerned with how each part of the business is organised to deliver the corporate and business-unit level strategic direction. Operational strategy therefore focuses on issues of resources, processes and people.

Source: Johnson and Scholes (2008)

In addition, Strickland and Thompson (2003) indicate strategy is a management game plan for strengthening the organisation’s position, pleasing customers and achieving performance targets in the long term. Pearce and Robinson (2003) state that strategy

reflects an organisation's awareness of how, why, when, where and against whom it should compete. McDonald (2000) looks at various definitions and defines strategy as the long-term direction of an organisation that defines its business, and matches activities of the business to the environment in order to minimise the threats and maximise opportunities as well as matching the organisation's activities to the resources available.

Porter (1996:74) argues that competitive strategy is about being different and means deliberately choosing a different set of activities to deliver a unique mix of values. Strategy is about competitive position, about differentiating oneself in the eyes of the customer, about adding value through a mix of activities, different from those used by competitors. Thus, Porter (1996) seems to embrace strategy as both plan and position.

From the above definitions, strategy then refers to what business the organisation is in and how it attains advantage within the industry to ensure its success. This study has adopted strategy to mean *the strategic plan, which organisations consciously develop to attain competitive advantage within an industry and is the long-term plan that provides a direction*. This strategy should comprise three levels of strategies namely: corporate, business and functional strategies.

3.2.3 Competitive strategy

In recent years, the concepts of competitive strategy and competitive advantage became core in discussing organisational strategy. However, the definition of the terms is elusive as authors use different words, as will be demonstrated below.

Porter (2004:3) defines the goal of competitive strategy as the search and realisation of a favourable competitive position in an industry by differentiating itself in the eyes of customers by adding value through a mix of activities. Porter (2004) defines competitive strategy as "a combination of the ends (goals) for which the organisation is striving and the means (policies) by which it is seeking to get there". Thus, it seems to embrace

strategy as both a plan and position. Organisations can adopt three competitive business-level strategies, namely:

- *Differentiation strategy:* The organisation seeks to be unique in its industry along some dimensions that are widely valued by buyers. Goods and services are differentiated to satisfy the needs of customers by a sustainable competitive advantage that focuses on value capable of generating higher prices and better margins;
- *Cost leadership:* If an organisation aims to pursue the strategy of cost leadership, it has to be the low cost producer. A firm may gain cost advantage through economies of scale, proprietary technology and cheap raw material among others. Organisations that achieve cost leadership can benefit by either gaining market share through lowering prices (whilst maintaining profitability,) or by maintaining average prices and therefore increasing profits. All of these are achieved by reducing costs to a level below those of the organisation's competitors;
- *Focus strategy or niche strategy:* This is where an organisation chooses a narrow segment within its industry and tailors its offerings to that segment. Focus strategies involve achieving cost leadership or differentiation within niche markets in ways that are not available to more broadly-focused players.

Porter (2004) labels organisations that follow each generic strategy, but do not achieve any of them as "stuck in the middle" and guarantees the organisation low profitability. The three strategies are distinct and mutually exclusive alternatives and organisations may be able to pursue more than one of these strategies simultaneously. An organisation attains a competitive advantage by having low costs, differentiation advantage or a successful focus strategy. Competitive advantage grows fundamentally out of value an organisation is able to create for its buyers that exceeds the organisation's cost of creating it. Hence, a competitive strategy must position an organisation at a superior position within the industry.

Hitt *et al*. (2009:4) indicate that a firm has a competitive strategy if the competitors are unable to duplicate it or find it too costly to try to imitate, and such a strategy should give

the firm above-average returns. There is no competitive advantage that is permanent and the speed by which competitors try to acquire the skills and capabilities required to duplicate the strategy determine how long the competitive advantage will last. A competitive advantage is achieved if an organisation has a strategy that cannot be duplicated and gives returns that are above normal (above expectations of the shareholders and industry standards). Barney (2002:9) supports this view and states that an organisation experiences competitive advantage if its actions in an industry create economic value, and when few organisations are engaging in similar actionss and such firms obtain above-normal performance, as it generates greater than expected value from the resources employed.

According to Tabije (2010:1), gaining an advantage is the key to success and even survival. But many of the so-called advantages that businesses rely on are not sustainable. They can be easily copied, stolen or negated. Real competitive advantages are things like brand name recognition, patented manufacturing processes or exclusive rights to a scarce resource which cannot be easily copied. Every organisation must identify its unique strengths as well as those of key competitors. In addition, Thompson, Strickland and Gamble (2010) observe **"**without a strategy that leads to competitive advantage, an organisation risks being out-competed by stronger rivals". Further, Houghton (2010:1) has defined competitive strategy as a plan on how an organisation intends to compete and that is formulated after evaluating its strengths and weaknesses compared to those of its competitors.

For the purpose of this study, competitive strategy is defined as *a strategic plan that is competitor-orientated where the organisation seeks victory by providing customers superior value through configuration of its core competencies that gives it a competitive positioning in the industry and differentiates it from others.* In addition, an organisation has a competitive advantage if its strategy is unique (differentiated from competitors), creates value to the customers without increasing its costs, and its performance exceeds the value of resources deployed.

For MFOs to survive and grow in a competitive and volatile environment, they have to formulate and implement competitive strategies. Such strategies should give them a competitive advantage within the industry that should translate to financial profitability and increased outreach to the poor and SMEs. If MFOs are able to develop and implement competitive strategies, they will become effective vehicles to reduce the poverty levels in the country by providing funds for investment by the poor who are shunned by the mainstream commercial banks.

3.2.4 Strategy implementation

Strategy implementation is relatively a new field of focus whose genesis was due to the high failure rate of strategies implemented and lack of frameworks for strategy implementation. More significantly, the field gained extensive exposure in 1999 when the Fortune magazine published an article citing that organisations fail to successfully implement strategies not because of bad strategy but because of bad execution (Robin, 2009:1). However, there is still a huge gap of knowledge, techniques and tools in the field and hence the need for scholars to give attention to this field.

Regarding the term "strategy implementation" there is little controversy regarding its labelling. However, there are terms used in the literature that are synonymous with implementation such as execution, and actualisation of goals. However, Sashittal and Wilemon (2001:68) point out that these terms are not frequently used by managers. Epper, Guohui and Yang (2008:4) in a review of sixty articles concluded that most of the scholars use the term strategy implementation as a title and only very few who use strategy execution and there are no articles differentiating strategy implementation from strategy execution. However, there are authors who have used strategy execution as an exact synonym of strategy implementation. Despite little controversy in labelling strategy implementation, there is no universally accepted definition. Table 3.4 shows the various definitions from the authors sampled from literature.

Table 3.4: Definitions of strategy implementation

Authors	Definition of strategy implementation
Noble (1999b)	Strategy implementation is the process that turns plans into action and ensures that such actions are executed in a manner that accomplishes the plan's stated objectives.
Harrington (2006:378)	Strategy implementation is an interactive process of implementing strategies, policies, programmes and action plans that allows a firm to utilise its resources to take advantage of opportunities in the competitive environment.
De Kluyver and Pearce (2006)	Strategy implementation is a hands-on operation and *action*-orientated human behavioural activity that calls for *executive leadership* and key *managerial* skills.
Johnson and Scholes (2002)	Strategy implementation is a process through which strategic management is put into effect.
Hrebiniak (2006)	Strategy implementation is a *process* that takes longer than formulation.
Strickland and Thompson (2003)	Strategy implementation is an internal managerial process comprising the following eight factors: • building capable organisations • designing a three-year pro forma budget • writing detailed policies and procedures supporting the strategy chosen • Installing appropriate systems supporting the strategy (e.g. information systems, clerical support, accounting, and inventory control systems) • designing reward systems • finding and installing a system of best practices based upon benchmarking • Preparing the old culture to reflect the values and beliefs of the organisation in light of the specific strategy and implementation chosen. In some instances, a new culture significantly different from the old may emerge • Finally providing leadership in a manner supporting the strategy chosen
Wells (2009)	Strategy implementation involves, resourcing the plan, putting it into action and managing those actions.
Hitt *et al.* (2009)	Strategy implementation means taking action to achieve strategic competitiveness and earn above average returns and this leads to desired strategic outcomes. It is a dynamic process due to the ever-changing markets and an organisation has to continuously evolve its strategic inputs.
Bartolomei (2010)	Strategy implementation is the process of putting the strategic plan into an action-based road map that will help organisations reach their goals and turn their visions into something tangible.

Robin (2009:1)	Strategy implementation is the actions an organisation takes today to deliver the strategy tomorrow and observes that people in an organisation are always taking actions but the key issues is whether the actions being taken are capable of driving the implementation forward and that the day today activities should collectively enable the organisation to deliver its strategy if they are well aligned to it.
Lehner (2004:460)	Strategy implementation is a *process* inducing various forms of organisational learning, because both environmental threats and strategic responses are a prime trigger for organisational learning processes.
De Kluyver and Pearce (2003:212)	Strategy implementation is a hands-on operation and *action*-orientated human behavioural activity that calls for *executive leadership* and key *managerial* skills
Schaap (2006:13)	Strategy implementation comprises those *senior-level* leadership *behaviours* and *activities* that will transform a working plan into a concrete reality.
Sashittal and Wilemon (2001:69)	Strategy implementation as an *action-orientated process* that requires administration and control.
Miller (2004: 225)	Strategy implementation refers to 'all the processes and outcomes which accrue to a strategic decision once authorisation has been to go ahead and put the decision into practice.
Flood, Dromgoole, Carroll & Gorma (2000)	Strategy implementation is 'the successful implementation of strategic decisions.
Wheelen and Hunger (2004:192)	Strategy implementation is the sum total of the activities and choices required for the execution of a strategic plan.
Dess & Lumpkin (2003)	Strategy implementation is the process where managers translate the strategies into action.

Source: Own construct

From the above definitions, it can be seen that there is no universally accepted definition of "strategy implementation". However, authors have exhibited three approaches in defining strategy implementation: first as a process perspective, that takes strategy implementation as a sequence of carefully planned consecutive steps; secondly, strategy implementation is viewed as a series of parallel actions from a behaviour perspective. and thirdly, as a process and behaviour perspective which is labelled as a hybrid perspective.

Meanwhile, in the midst of the relative uniformity of the definitions cited above, most of the authors have stressed the role of top management, and none of the authors have

cited the role of the non-managerial staff in turning the strategic plan into results. It is apparent that top leadership plays a critical role in turning the strategic plan into action. This view is particularly supported and emphasised by Bossidy and Charan (2002:3) stating that strategy execution is the top job of the business leader.

While taking prior definitions into account, strategy implementation for the purpose of this study is defined as *a dynamic, interactive and complex process, which is comprised of a series of decisions and activities by managers and employees affected by a number of interrelated internal and external factors to turn strategic plans into reality in order to achieve strategic objectives*. The section below focuses on establishing the relationship between strategy formulation and strategy implementation.

3.3 INTERACTION BETWEEN STRATEGY FORMULATION AND IMPLEMENTATION

In strategic management literature**,** strategy formulation has received more attention than strategy implementation**.** Using the linear model of strategic management, strategy formulation is often seen as the role of top management who are the decision makers who develop strategies and make decisions on which strategies to implement (Allio, 2005:1). While different authors have taken different perspectives on strategy formulation, the common idea behind strategy formulation is that this process is believed to be the core of strategic management, involving key decisions that shape the future of organisations (Hunger & Wheelen 2000 & David 2003)**.**

Within the strategy implementation literature, there is a debate on whether strategy formulation and implementation should be treated as separate or intertwined processes. In most cases, where strategy implementation is considered, many strategy researchers have treated strategy implementation as a separate stage after strategy formulation (see for example Hunger & Wheelen 2000; Johnson & Scholes, 2002). In this perspective, top management develops strategies using rational procedures and then designs an organisational structure and a set of management processes to elicit organisational behaviour required to implement it (Hofer & Schendel, 2001). The

approach of separating strategy formulation and implementation is not without criticism and is often seen as the root cause of many failed strategies (James & Raposo, 2001 and Nag *et al*. 2007). This is due to various reasons.

First, when strategy formulation and implementation are separated, thinking is detached from doing which hampers learning (Mintzberg, 1994). Secondly, top managers are involved in strategy formulation at the exclusion of middle managers and operational level staff. Consequently, they fail to have buy-in of the corporate goals or involve themselves in the work of becoming more competitive. Hence, unsuccessful strategy implementation is caused by middle-level managers who are either ill-informed or unsupportive of the chosen direction (David, 2003). For example, if middle managers and operational level employees are not involved in the strategy formulation process, they may not be very committed to that strategy, which may have very negative effects on its implementation. Indeed a strategy which is formulated without much employee involvement is more likely to have major flaws (Alexander, 2000).

Thirdly, literature suggests that strategy formulation and implementation affect one another (Cocks, 2010:3). This is because an aspect of strategy can have an influence on implementation performance. For example, a well formulated strategy is one that is implementable (Hambrick, 2004). No amount of time and effort spent on implementation can rescue a strategic decision or plan that is not well formulated to begin with (Alexander, 1999:75). Implementation may fail because the original plan was not visible. As a result, implementation of strategy must be considered during strategy formulation and not when it might be too late to change the strategy. In addition, the process by which strategy is formulated can have an influence on implementation performance. Understanding of implementation cannot be separated from the processes that generate the strategy.

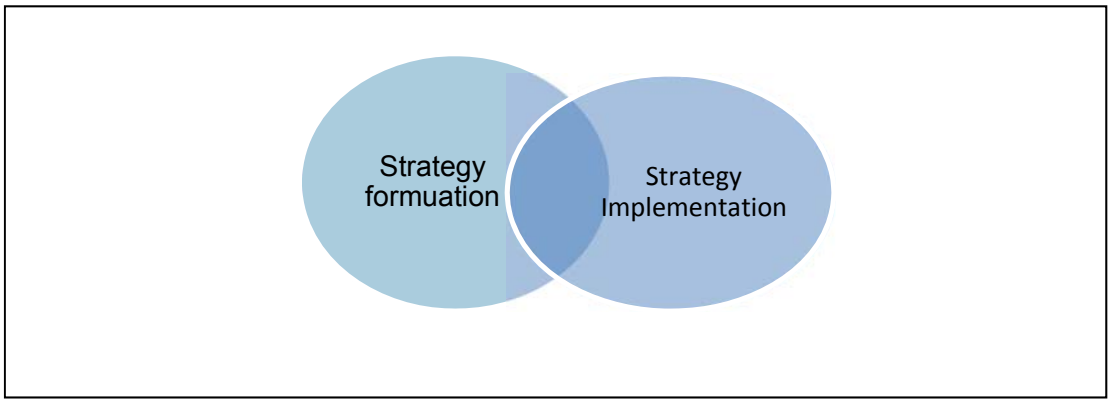
Fourthly, although organisations formulate intended strategies that are communicated to all the stakeholders and should be realised as intended, emergent strategies arise to enable organisations respond to the changes in the environment. In spite of a well-

intended strategy, emergent strategies must be incorporated to respond to these changes. Because of continuous strategic change in the environment, organisational leaders should be able to formulate strategies as well as ensuring they are implemented successfully. As the environment changes, organisations need to formulate new strategies to remain competitive. Strategy formulation and implementation are intertwined processes and success in both is necessary for superior organisational performance (Noble 1999b and Miller, 2004).

Bossidy and Charan (2002) state that strategy implementation must be viewed as a discipline and integral to strategy formulation since the ability of the organisation to implement the strategy must be considered during planning, implementation is the task of top management and implementation must be impeded by cultural change.

From the discussion above, organisational success requires constant review and connection between strategy formulation and execution with each component feeding into and growing off the other in an organic way. Figure 3.4 illustrates the interaction between strategy formulation and implementation.

Figure 3.4: Relationship between strategy formulation and implementation



Source: Bossidy and Charan (2002)

From the foregoing, consideration of the feasibility of implementing strategies being formulated is critical to successful implementation. In addition, strategic changes should be incorporated during the implementation phase and hence the two processes are interactive and inter-twined.

The section below focuses on the strategy implementation process to generate an understanding of how strategies are implemented.

3.4 PROCESS OF STRATEGY IMPLEMENTATION

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

According to MacIlwaine (2000:1), implementation of strategy commonly remains significantly behind the quality of the actual strategic plan. Often the plan gets launched in a stunning presentation to employees and stakeholders, but two months later the strategy components are hardly remembered by employees at lower levels, and six months later the delivery of results is behind schedule. Effective strategy implementation relies on the power of strategic and emotional alignment. Strategic alignment means communication of the strategy right down to the shop floor, since top managers and the board formulate strategy but it is implemented at lower levels. The

strategy should be communicated as plainly as possible, using appropriate channels of communication by the CEO and top managers, and updates should be provided upon commencement of strategy implementation. Emotional alignment is the ability of the employees to develop motivation to work and deliver results of the strategy, which is a key role of top management. This should entail values of the organisation being actively lived and practised starting at the top, fair reward policy, clarity of career development processes, suitable work environment, and credible and genuine organisational culture. There are three components to powerful alignment to ensure that strategies are effectively implemented: a leader committed to and capable of creating alignment, a compelling powerful strategy created inclusively, and a product/service and workforce that is competitive or potentially competitive.

According to Hrebiniak (2006:38), the strategy implementation process should focus on nine factors to ensure its success. These factors are:

- a logical model to guide managers during the implementation process;
- a sound well-conceived strategy;
- effective management of change;
- organisation capabilities to implement strategy;
- effective coordination and information sharing;
- clear responsibility of every individual;
- system of accountability for results;
- right culture supportive of the strategy;
- leadership that is execution-based.

Wayne (2009:1) indicates that strategy implementation is a discipline that involves a process of operational planning, follow-up and accountability. It is the main task of the leader, and organisational culture must be embedded into it such as norms, rewards, behaviours and systems.

According to Kaplan (2005:72), the persistent gap between strategy formulation and implementation is where organisations fail to attain the planned results arising from a

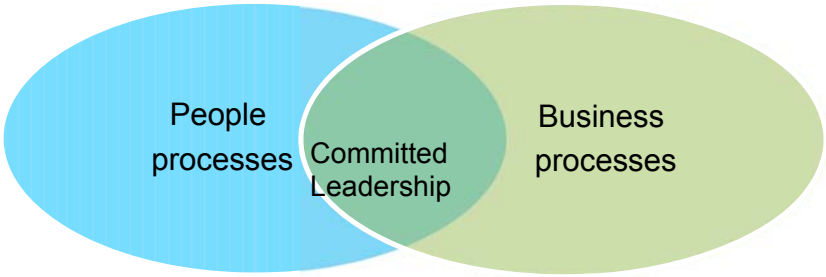
lack of coherent processes to manage strategy implementation, As a result, management processes remain disconnected to the strategy, leading to its failure. Stephen (2009:6) emphasises that strategy implementation processes should begin with clear understanding of the business drivers at all levels of the organisation as well as how to measure them, and an understanding of the business processes and how they are interrelated to deliver results.

Vivendi (2005) states that strategy implementation should focus on putting the right people in the right places. The right people could be hired or current staff trained at all levels to achieve and sustain superior performance. Another important factor is aligning all the business processes to the strategy. These views are supported by Bossidy and Charan (2002:35) that the successful strategy execution process must link organisational people processes, business processes and strategy. However, these authors fail to provide details on how organisations can implement these three core processes to achieve strategy success. These authors further indicate that strategy implementation must be viewed as a discipline and be integral to strategy formulation. Since the ability of the organisation to implement the strategy must be considered during planning, implementation is the job of the business leader and implementation must be imbedded into the cultural change process.

Cocks (2010:3) states that strategy implementation is not merely a matter of operationalising the strategy by exercising command over resources, employees and their work. This approach assumes a logical and hierarchical distinction between strategy formulation and implementation, with implementation delegated to a subordinate status and as the responsibility of middle-level management. But implementation is more mundane and detailed compared with creating a grand design and vision of the future. Since successful organisations stay tuned to their external environments and adapt quickly and flexibly by changing their internal processes, systems, competencies, products and services while continuing to operate efficiently and effectively, skills for strategy formulation and execution are both important.

From the discussion thus far it is clear that there is no agreed process of strategy implementation. However, there is a general agreement of the need for a logical model capable of guiding strategy implementation. Further, there is a consensus that the strategy implementation process is the alignment of the business processes and people processes to the strategy. The role of the business leader in successful strategy implementation is critical to its success. Hence, the strategy implementation process is the alignment of the people, business process to the strategy and this is steered by committed leadership. Figure 3.5 below shows key elements of a successful strategy implementation process.

Figure 3.5 Strategy implementation process



Source: Own construct

From the above figure it is clear that successful strategy implementation processes must align people and business processes with the strategy. Some of the people processes include having people with the right skills doing the right jobs, motivated people, with the right culture to support the strategy, and the right work environment. Committed leadership is at the centre of successful strategy implementation.

The following section highlights a few strategy implementation processes.

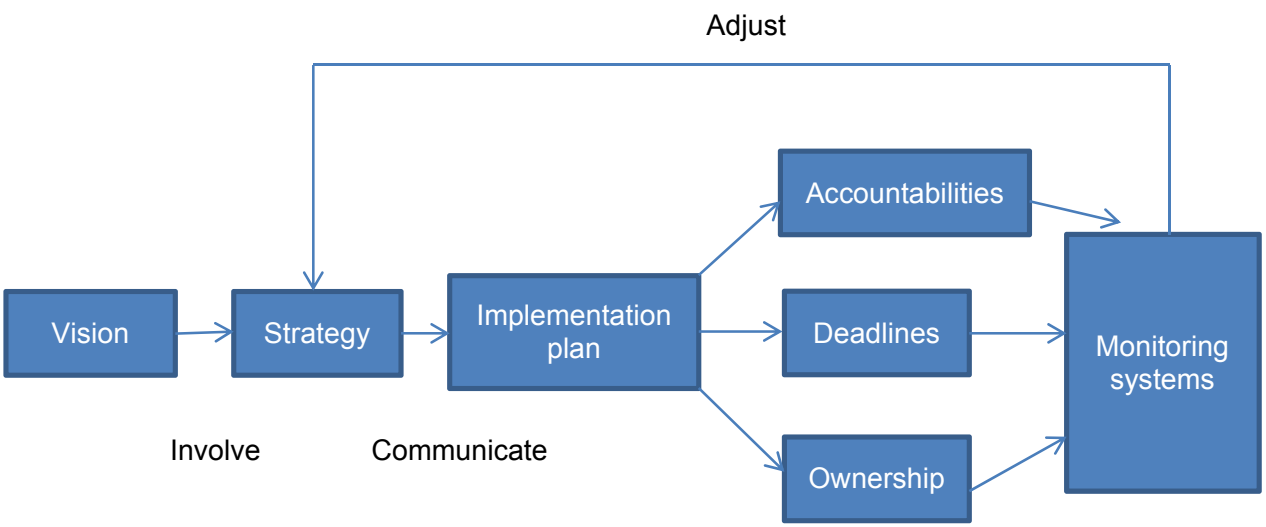
3.4.1 Mounts' (2013) strategy implementation process

Mounts (2013) argues that it is important to spend as much time planning the implementation process as time spent on developing a strategy. The following aspects appear to be critical for successful implementation:

- Identify tactics supporting the overall strategic goals;
- Establish tactical plans with actionable projects and time-lines;
- Assign unambiguous accountabilities for task completion;
- Measure ongoing progress of the implementation process;
- Refine and adjust the strategy to changing conditions;
- Develop and identify necessary operational, financial, human, technical and process resources to keep strategic implementation task on track.

Figure 3.6 illustrates the steps in a typical strategic implementation plan.

Figure 3.6: Mounts' strategic implementation process



Source: Mounts (2013)

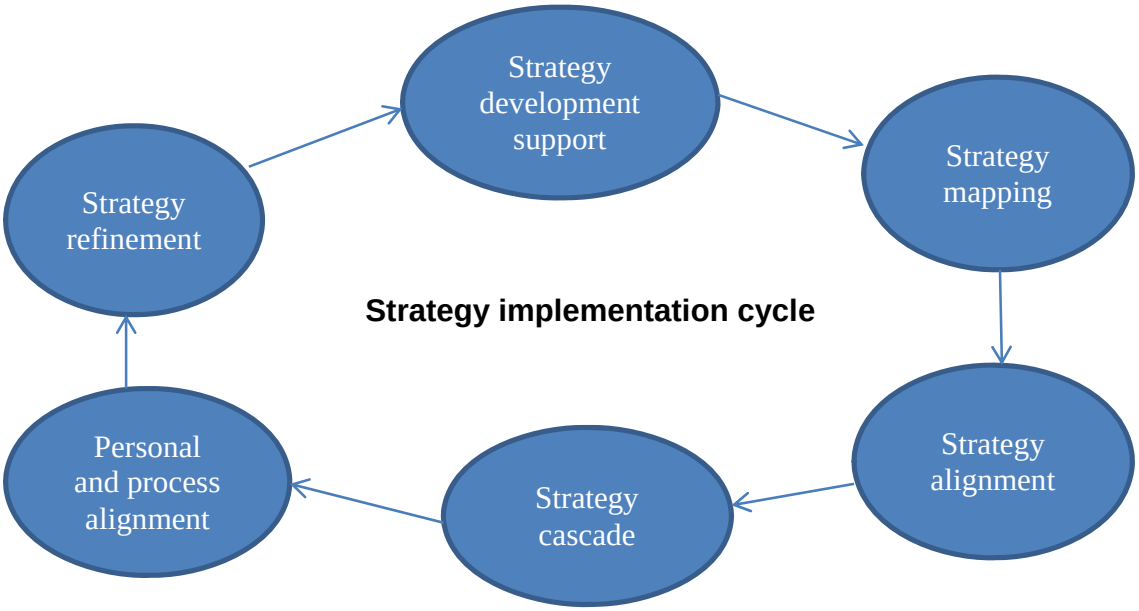
A good leader should explain the vision of what the organisation should become and then involve employees from all levels in developing and implementing the strategy. The implementation plan should be communicated throughout the organisation with specific steps, deadlines and accountabilities. Continuous monitoring and adjusting of the strategy are paramount.

3.4.2 The strategy implementation cycle

The emphasis is on structured techniques to implement financial, operational and organisational components in an integrated manner during the implementation process. The six components of the cycle are:

- *Strategy development support* – acquiring relevant and meaningful external and internal information to facilitate strategy development through a PESTEL analysis, five-forces analysis value-chain analysis and SWOT analysis;
- *Strategy mapping* – emerging strategic objectives need to be clarified and validated to develop a roadmap that links these objectives across various business dimensions and to identify supporting initiatives;
- *Strategy alignment* – the strategy must be linked to individual units or departments to get them focused;
- *Strategy cascade* – engaging the whole organisation in the implementation process by rolling out the strategic objectives into operational tasks and strategic initiatives and eventually into personal performance objectives for each individual employee;
- *Personal and process alignment* – personal goals need to be aligned with performance management systems and process goals;
- *Strategy refinement* – new and major external changes may require that the strategy be reviewed and changed (Stratexone, 2013).

Figure 3.7: Strategy implementation cycle



Source: Stratexone (2013)

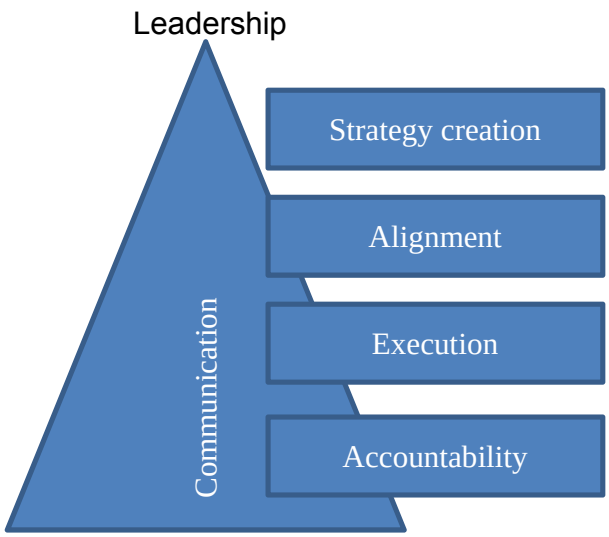
3.4.3 Willden's (2013) strategy implementation maturity model

Willden (2013) proposes four critical areas to ensure effective strategy implementation:

- strategy creation or development;
- alignment of people and processes with the strategy;
- Execution of the strategy;
- Accountability of all involved in the implementation process.

In these four critical areas, communication plays a cardinal role, as depicted in Figure 3.8.

Figure 3.8: Willden's strategy implementation maturity model



Source: Willden (2013)

This model puts strategy implementation issues in a broader context which could assist organisations to be more successful with strategy implementation.

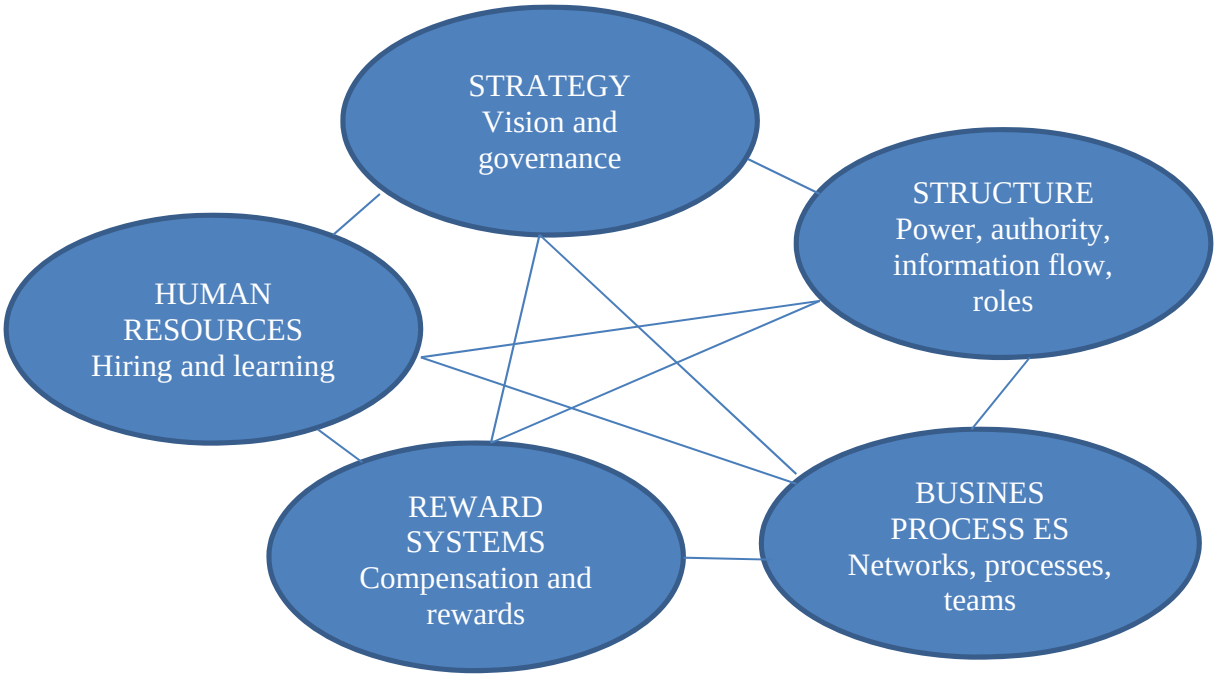
3.4.4 Galbraith's (2012) star model of strategy implementation

Galbraith (2012) has developed an operating model of strategy implementation. The purpose of the model is set by the organisation's strategy, while the operating model is built upon four interconnected domains:

- *structure* – indicating power and authority relationships and how the organisation is built;
- *business processes* – indicating how an organisation makes decisions and operates;
- *human resources* – indicating how an organisation attracts, develops and retains talent;
- *reward systems* – indicating how an organisation influences performance.

Alterations to this model include aspects such as leadership, culture, systems anmd technology. Figure 3.9 shows the basic elements of the star model.

Figure 3.9: Galbraith's star model of strategy implementation



Source: Galbraith (2012)

3.4.5 Hildebrand's (2009) steps for strategy implementation

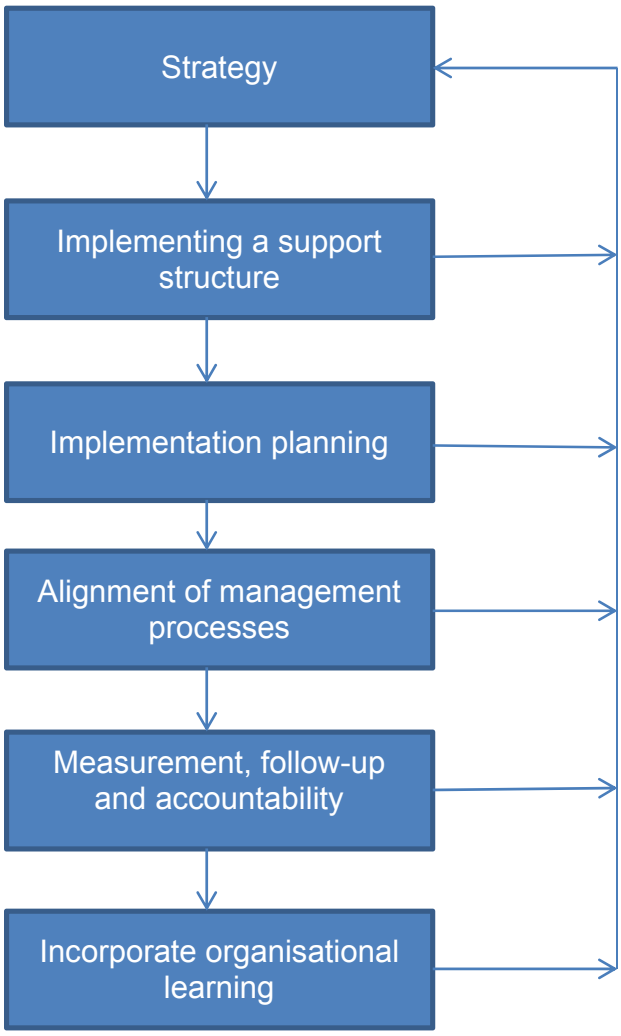
Hildebrand (2009) identified the following five critical actions for effective strategy implementation:

- *implementation support structure* – ensure that the organisation has the right leadership, governance and operational structure to support implementation, and employees are appointed in the right places;
- *implementation planning* – developing a detailed outline of the actions, responsibilities, deadlines and measurement tools required for implementation tasks;

- *alignment of management processes* – align processes such as performance management, reward systems and team management with the strategy;
- *measurement, follow-up and accountability* – put measurements in place to evaluate implementation effectiveness, ensure regular feedback and clarify accountabilities;
- *incorporate organisational learning* – ensure ongoing review of the implementation process to ensure that the strategy remains dynamic and relevant.

Figure 3.10 illustrates these five critical steps in strategy implementation.

Figure 3.10: Critical actions steps for strategy implementation



Source: Own construction

3.5 IMPORTANCE OF STRATEGY IMPLEMENTATION

Achieving success is a highly critical issue in a competitive business environment. Effective strategy implementation plays a key role in ensuring that organisations are successful. According to Arslan and Kivrak (2009:561), business success is highly correlated with the flawless implementation of organisational strategies. Hrebiniak (2006:12) agrees that strategy implementation is critical to competitive success as it positions organisations in the market place and impacts on its performance. Wayne (2009) hails the importance of strategy implementation as a process of getting results which are critical in a competitive global economy. However, many companies are unable to bridge the gap between the goals they set in their business plan and the results they need for success. Edwards (2009:1) cites the importance of strategy in providing the long-range perspective of a business in a fast-moving and fast-changing business world and states that strategy implementation is critical to the functioning of an organisation.

According to Van der Maas (2008:14), strategy implementation is even more important in turbulent times, as the environment in which public and private organisations operate is increasingly dynamic. Some of the factors contributing to this dynamic and turbulent environment include globalisation of markets, rapid technological change, deregulation of industries, a shift of organisations from public to private sector, and the increasing aggressiveness of competition. As a result, the competitive rules of 1990s and beyond have been altered. This means that strategy implementation is more important now than ever before.

Powell (2001:875) points out that a shorter period of competitive advantage, punctuated by frequent disruptions, have replaced the long and stable periods of the past, in which organisations could achieve a sustainable competitive advantage. These environmental developments have resulted in strong pressures for frequent strategic changes to maintain a fit with these changing environments. In turbulent environments, the ability to implement new strategies quickly and effectively may well mean the difference between

success and failure for an organisation, as slight delays can prove critical in highly competitive and dynamic environments.

According to Bossidy and Charan (2002), strategy execution is the driving value in organisations, a cornerstone of its culture and a unifying theme for all levels of leadership. It is further emphasised that strategy implementation is critical since it differentiates an organisation from competitors and sustains its competitive advantage, ensures that stretched goals bear results, increases energy and motivation into the organisation and ensures that an organisation adapts well to these changes. However, strategy implementation failure drains energy from the employees and key stakeholders. Consequently, strategy implementation is the main task of business leaders.

Cocks (2010:260), after studying 11 organisations that were high performers for 25 years, concluded that being a winning organisation has little to do with charismatic leaders, seeking breakthrough ideas, rolling out precise mission statements or creating the perfect organisational structure. The key pivotal element of high-performing organisations is effective implementation of plans and strategies. This implies that to understand what it takes to be a winning organisation starts with implementation. Further, Crawford and Brewin (2004:1) indicates that successful strategy implementation pays major dividends, and poorly executed strategies rarely bring any payoff at all.

Raffoni (2008:3) notes that the most creative and well-crafted visions and strategic plans are useless if not translated into action. However, strategy formulation is regarded as the domain of top management, who are rewarded for their creativity, and strategy implementation is delegated to middle-level managers who do not earn as much respect as strategy formulation. However, the tasks of strategy implementation are intellectually just as demanding as strategy formulation. The author adds that effective execution in itself may provide a major source of sustainable competitive advantage.

According to Noble (1999b:119), the best-formulated strategies may fail to produce superior performance for the organisation if they are not successfully implemented. Successful strategy implementation is an essential factor in the formula for success of any business or organisation, as successful implementation of strong and robust strategies gives an organisation a significant competitive edge. Further, if an organisation cannot implement a strategy successfully, the implications are enormous. Apart from monetary and time loss, failed implementation creates a negative precedence within the organisation, such as lower employee morale, loss of trust in management, and creation of an even more inflexible organisation (Heracleous, 2000:75).

According to Hussey (1998) and Higgins (2005:3) well-formulated strategies only produce superior performance for an organisation when they are successfully implemented, and the best-made strategies are worthless if they cannot be implemented successfully. Strategic success not only requires an appropriate strategy but also requires that the strategy is implemented successfully and timely. Furthermore, strategies that fail to be implemented can be very costly, both in terms of formulation costs and foregone benefits. Hence, strategy implementation is the essence of strategic management, and without it strategic management discipline would not add value to organisations.

Dess and Lumpkin (2003) comment that strategy implementation is the process where managers translate the strategies into action, and involves the management of all other internal elements in an organisation to ensure that the implementation process is successful. The authors cite the importance of strategy implementation in that without implementation, effective strategies are of no value. Atkinson (2006:1441) points out that transformation from the industrial to the information age is signalled by increasing sophistication of customers and management practices, escalation of globalisation, more prevalent and subtle product differentiation, and an emphasis on intellectual capital and enhanced employee empowerment. In this new world order, successful strategy implementation becomes more important.

Table 3.5 below shows a summary of the importance of strategy implementation according to the authors cited in this section.

Table 3.5: Importance of strategy implementation

Author	Importance of strategy implementation
Dess and Lumpkin (2003)	Planned strategies are turned into actions
Hussey (1998) and Higgins (2005)	Ensures that well planned strategies give superior value to an organisation
Heracleous (2000:75)	Provides an organisation with a competitive edge
Noble (1999b)	Differentiates successful organisation from unsuccessful ones
Cocks (2010)	Ensures that an organisation is high performing and a winning one
Bossidy and Charan (2002)	It is the driving force of organisations, a cornerstone of its cultural change processes and a unifying theme for all levels of leadership
Powell (2001:309)	Provides the organisation with sustainable competitive advantage
Van der Maas (2008:14)	Enables organisations to address dynamic and turbulent factors in the business environment
Edwards (2009:1)	It provides the long-range perspective of the business in a fast-moving and fast-changing business world
Hrebiniak (2006)	Competitive success and positioning organisations in the market place
Arslan and Kivrak (2009:561)	Ensures business success in a turbulent and dynamic world
Atkinson (2006:1441)	Enables organisations to respond to the new world order

Source: Own construct

The value of strategic management can only be realised through effective implementation of strategy that competitively positions the organisation in its industry. This implies that there is a need to address all the challenges affecting strategy implementation to ensure that organisations realise the benefits of formulated strategies and experience superior performance. Hence, the ability of managers to steer strategy implementation is very important to an organisation. The following section focuses on

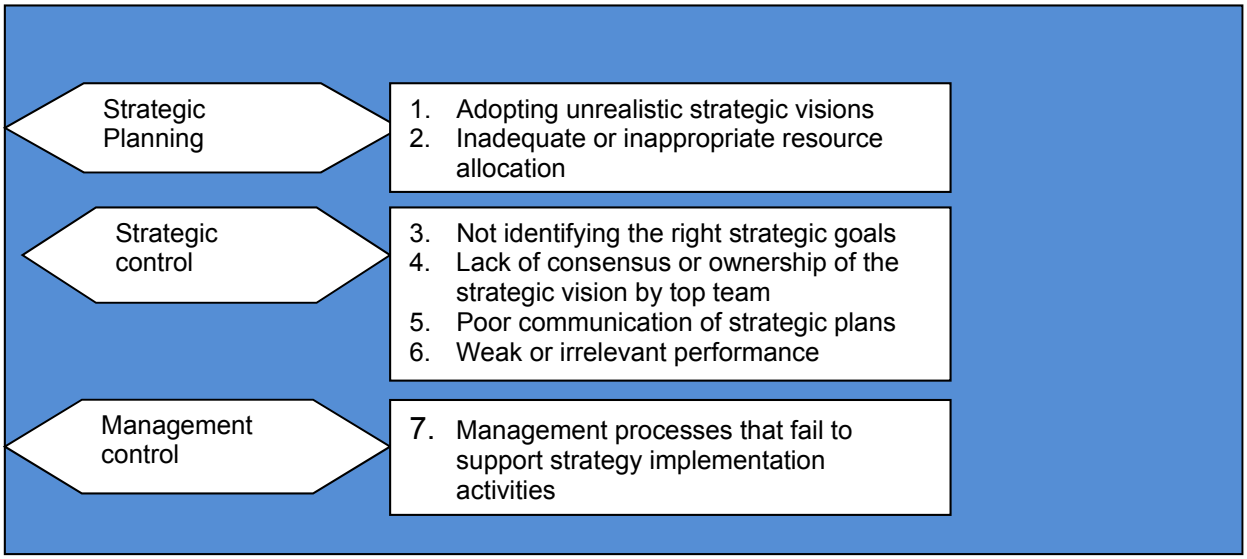
barriers experienced in implementing strategies. Identification of the barriers will lead to development of a framework to assist organisations to effectively implement strategies that have been formulated.

3.6 BARRIERS TO SUCCESSFUL STRATEGY IMPLEMENTATION

Most authors acknowledge that formulation of competitive strategies is not easy, but the main challenge lies with strategy implementation that limits the success of developed strategies owing to the obstacles encountered during the implementation. Ian and Gavin (2001:2) through a survey of UK firms identified that most firms had a strategy but successful implementation of that strategy was problematic. However, Bossidy and Charan (2002) indicated that the ultimate difference between an organisation and its competitors was its ability to implement strategy and this was the most important task of top management. Successful strategy implementation is important for the survival of organisations and their sustainable performance. Ian and Gavin (2001:2) identified seven problems related to strategy implementation stemming from strategic planning, strategic control and management control, which collectively form the basic elements of management of strategic implementation.

Figure 3.11 below shows the seven causes of strategy implementation failure arising from strategic planning, strategic control and management control.

Figure 3.11: Causes of strategy implementation failure



Source: Ian and Gavin (2001)

Strategic planning activities set the goals and choose the direction the organisation intends to take, while strategic control focuses on effective implementation of the strategy and includes review and adjustment of the plan to include changes in assumptions and new opportunities. It is a critical part and is prone to failure as four out of seven failures emanate from this category. Hence, the management process related to strategic control requires continuous improvement to ensure strategy implementation success.

Hrebiniak (2006) acknowledges that although formulating a consistent strategy is a difficult task for any management team, making that strategy work by implementing it throughout the organisation is even more difficult. Some of the causes of ineffective strategy implementation include: managers are trained to plan and not to execute; top managers de-link themselves from strategy implementation and only focus on planning; poor interaction between doers and planners; poor control of execution process by the managers; failure to view strategy implementation as an integrated process; and poor internal communication.

Alexander (1999:78) identified the following ten causes associated with poor strategy implementation:

- underestimation of time needed for implementation;
- unanticipated problems;
- uncontrolled factors in the external environment;
- overestimation of targets during the planning phase;
- ineffective coordination;
- poor definition of tasks;
- competing activities;
- insufficient staff capabilities;
- inadequate leadership and direction given at lower levels;
- inadequate information systems to support implementation.

To overcome these challenges of strategy implementation, there is need for effective action planning to ensure that proper time is allocated to strategies. performance targets should be realistic, assessment of information systems is needed to support strategy, there should be detailed planning to ensure that staff are clear on their tasks, staff capabilities are developed and there must be appropriate leadership.

According to Alghambi (1998:327), 92% of organisations took more time than originally expected to implement strategies, 75% were ineffective in coordinating activities, 83% experienced distraction from competing activities, 71% had key tasks not defined in detail and 71% had inadequate information systems to support implementation. For effective strategy implementation, emphasis should be on effective formal planning, consistent communication and aligning strategy with information systems.

Noble (1999a:19) acknowledges the challenge of implementation and identifies barriers to implementation such as lack of a strategic fit between strategy and structure, inappropriate management style for the strategy, poor coordination, inability to respond to the volatile environment, and cost minimisation as opposed to value maximisation. The critical factors for strategy implementation are: a fit between the strategy and the

organisational structure and capabilities, appropriate expertise and skills, competence in responding to unanticipated changes, and detailed action planning to ensure that all staff and sections are clear on goals and targets.

According to Beer and Eisenstat (2000:37), the six killers to strategy implementation are: top-down management style, unclear strategic intentions, conflicting priorities, an ineffective senior management team, poor vertical communication, weak coordination across functions and inadequate down-the-line leadership. Corboy and Corrbui (1999:30) identify deadly mistakes for strategy implementation as: lack of understanding on how the strategy can be implemented, customers and staff not fully understanding the strategy, unclear individual responsibilities in the change management process, and difficulties and problems not recognised and acted upon in time. Key success factors for strategy implementation are: consistent communication, detailed planning and problem solving.

According to Aaltonen and Ikavaiko (2002:417) traditional reasons of lack of support by top management and lack of strategic fit between the strategy and the organisational structure are myths and not major factors hindering strategy implementation. The critical factors are cultural and behavioural in nature, such as poor communication and diminished feelings of ownership and commitment. Corboy and Corrubui (1999:30) advocate the need for effective communication and involvement of the entire workforce to build commitment to a strategy. Sterling (2003:27) identifies key barriers to strategy implementation to be: change of market conditions before the strategy takes hold, effective competitor response to strategy foiling the strategy, and inadequate resources to implement the strategy. Other factors cited include failure by stakeholders to buy-in and understand the strategy, poor communication, lack of strategy distinctiveness, lack of strategic focus (doing everything) and poorly conceived strategies.

Morgan, Levitt and Malek (2007) state that 90% of organisations fail to implement the strategies due to poor leadership, and cite the following factors:

- Leaders concentrate on further planning but fail to lead in implementation leaving it to the lower echelons;
- Leaders lack a systematic approach for identifying and implementing the right actions to deliver the promise;
- Leaders ignore their own responsibilities towards the people at the execution level, and make the assumption that the strategy they have in mind converts into understandable work at lower levels of the organisation;
- Leaders assume that the organisation is capable of making the required changes to implement the latest strategic vision and fail to appreciate that any significant shift in strategy requires changes in day-to-day activities across the organisation.

This view is shared by Bossidy and Charan (2002) who place greater responsibilities on the leaders to have the strategy successfully implemented. O'Regan and Ghobadian (2002:416) identifies eight barriers to strategy implementation as: inadequate communication; implementation taking longer than anticipated; lack of employee capabilities; lack of understanding of the overall goals, and ineffective coordination of implementation activities. Vivendi (2005:1) cites causes of poor strategy implementation as: poor synchronisation (getting the right products to the right customers at the right time); strategy not communicated to all those involved; resistance to change; cultural factors in the business environment; and compensation and incentives not linked to the strategy. Other factors cited are: inadequate communication during implementation and inattention to strategy implementation by the top managers, leading to poor follow-ups and support.

Kaplan (2007), through experience of consulting in organisations, indicates that some of the factors causing persistent failure to implement strategy include:

- Organisations fail to translate a strategic plan into an operational language easily understood by the employees;
- Strategic priorities are not linked to budgets;
- Human resource and information technology are not linked with the strategy;
- Middle-level manager and front-line staff compensation is not linked to the strategy;

- Ninety-five percent of employees do not understand the organisational strategy.

Stephen (2009) contends that organisations are very adept in planning but weak in strategy execution owing to a lack of strategies on how corporate goals are to be achieved. The strategy is not effectively communicated and there is a lack of metrics with key measures of organisational performance to determine progress towards achievement of strategic goals.

De Flander (2009:1) attributes strategy implementation failure to fragmented views from functional departments such as finance and human resource management, a lack of strategy ownership by middle-level managers, and the absence of simple methodology to communicate and execute strategy. Further, Scott (2006:37) claims that organisations spend a great deal of time and energy on strategy formulation but only 10% of the strategies are implemented. Four key reasons leading to poor strategy execution are: strategy fails to recognise the limitations of the existing organisation in relation to resources and capabilities; employees fail to understand how the strategy applies to their daily work; the organisation systems and processes cannot support the business strategy; and performance metrics and rewards are not aligned with the strategy. While there are many reasons leading to poor strategy execution, most of them seem to converge on a lack of preparedness to implement the strategy. According to Michele (2010), formulation of the strategy is the easiest part of the strategic management process and implementation of strategies is more difficult. The author identifies barriers to successful strategy implementation as including: preoccupation with the day-to-day details, lack of teamwork, conflicting priorities and the fact that managers require the use of some tools to overcome the identified barriers.

Bossidy and Charan (2002) consider that strategy implementation is affected because business leaders consider it to be the tactical side and delegate to staff at middle and lower levels as they focus on the perceived “big issues”. This perception is wrong as strategy implementation is a discipline and a system, and has to be built into the organisation's strategy, its goals and its culture. The business leader must be deeply

and passionately involved in strategy implementation for it to be successful. Corboy and O'Corrbui (1999:29) define obstacles as "deadly sins of strategy implementation" and explain them as follows:

- lack of understanding of how the strategy should be implemented;
- customers and staff not fully appreciating the strategy;
- unclear individual responsibilities in the change process;
- difficulties and obstacles not acknowledged, recognised or acted upon;
- ignoring the day-to-day business imperatives.

Giles (1999:75) suggests that there are three reasons why poor strategic planning is an obstacle to strategy implementation: a strategy is not really a strategy but "a mixture of budgets and management wish list"; a strategy is not executable; and finally the executors do not accept the strategy as "their own" because they did not participate in its formulation. Alashloo, Castka and Sharp (2005:136) categorise strategy implementation obstacles in terms of planning consequences, organisational issues, managerial issues and individual issues (see Table 3.6 below).

Table 3.6: Impeders of strategy implementation

Impeders of strategy implementation	
Planning-related	**Organisational-related**
Lack of exact strategic planning	Incompatible structure with the strategy
Insufficient linking of the strategy to goals.	Unsuitable resources allocation
Time limitation	Lack of adequate communication
Lack of consensus among decision makers	Lack of effective coordination
Lack of identification of major problems	Lack of adequate information system
Lack of effective role formulators	Incompatible organisational culture
Unsuitable training system	Competing activities among people
Unclear regulation and policies	Competing activities among units
Lack of choice of real strategy	Unsuitable evaluation and control systems
Lack of a national attitude to strategy	Unsuitable compensation system
	Inadequate physical facilities
	Lack of creative system
Managerial issues	**Individual issues**
Unsuitable leadership	Lack of enough capabilities of employees

Lack of adequate organisational support	Resistance to change among people
Lack of adequate manager commitment	Resistance to change among units
Fear of insecurity among managers	Fear of insecurity in the new territory
Political factors in regard to power	Lack of understanding of the strategy
Unsuitable personnel management	Inadequate connection to the vision
Uncontrollable factors	Lack of enough motivation of employees
Lack of enough motivation among the managers	Lack of employee commitment

Source: Alashloo *et al*. (2005:36)

Alashloo *et al.'s* (2005) categorisation seems to be not only comprehensive but also very operational in stating the relative importance of the obstacles in the processes of strategy development and application. Cocks (2010:3) has cited some of the causes of low strategy implementation as:

- Senior managers are only involved in strategy formulation and implementation is left to the middle-level managers;
- Strategy formulation and implementation are viewed as a hieratical steps instead of a continuous process so as to adjust to the changing environment
- Middle-level managers are not involved in strategy formulation although they have reliable. insights into organisational capabilities;
- Resource constraints;
- Operational people are not enthusiastic about implementing something they did not help create;
- Lack of adequate cooperation among all the units.

The involvement of all key stakeholders although tedious pays dividends through early participation and improved communication when the time comes for implementation.

According to Crawford and Brewin (2004) barriers to successful strategy implementation include organisational processes that are too rigid, inadequate or non-existent management tools, poor communication, lack of focus, poorly trained managers not focusing on implementation just planning, lack of resources, and no governance policies. These barriers must be dealt with by means of a carefully planned approach to strategy implementation. It appears that various factors may affect strategy implementation. The numbers of factors are different from the various authors mentioned above, and some similar factors may not have the same meaning. However, there are common recurring factors that act as barriers to strategy implementation. Table 3.7 summarises these factors.

Table 3.7: Summary of barriers to strategy implementation

	Common barriers to strategy implementation
1.	Poor quality of strategy e.g. not realistic
2.	Lack of strategy ownership
3.	Poor communication of the strategy and during the implementation process
4.	Top managers delinked from strategy implementation
5.	Poor control of strategy implementation process by the managers
6.	Inadequate skills to implement the strategy as managers are trained to plan and not to implement
7.	Poor leadership towards strategy implementation
8.	Inadequate attention to people factors e.g. (skills, competencies, ownership of strategy, clarity of tasks, culture , commitment, compensation, teamwork,
9.	Business processes are not supportive of the strategy
10.	Failure to view strategy implementation as an integrated process
11.	Inadequate time and resource allocated to the strategy
12.	Inadequate information system to support the strategy
13.	Poor operational planning
14.	Distraction from competing activities
15.	Volatility of the external environment
16.	Lack of strategic fit between the strategy and structure
17.	Poor coordination of the activities
18.	Performance measures are not clear
19.	Lack of management tools to support strategy implementation

Source: Own construct

There is also a view that several factors critical to strategy formulation and implementation should be considered simultaneously because most authors implicitly or

explicitly advocate an integrative view in seeking solutions to effective strategy implementation. Other differences that emerge are that some authors have longer lists of critical factors than others, use various titles for similar factors, and some combine several factors into one. The inconsistency in the literature further demonstrates the need for increased knowledge about strategy implementation obstacles. There is a need for a consensus on critical factors necessary to support strategy implementation.

3.7 CONCLUSION

From the literature above, it is clear that there are no agreed definitions of the various concepts in strategic management discipline, but there is little controversy over the meaning of the definitions. This is a demonstration that the strategic management field is still young and requires many more contributions leading to consensus on various definitions and frameworks. Strategy formulation and strategy implementation should be viewed as interactive processes, not distinct processes, but there is no commonly agreed process (step by step) of strategy implementation. In spite of the challenges of strategy implementation, the essence of strategic management discipline lies in the value that organisations realise from strategies that are implemented, hence the need to develop frameworks to support managers to implement the strategies successfully. Various factors contribute to low strategy implementation which organisations need to address. In addition, the use of management tools, especially project management ones, has the potential to improve strategy implementation by translating strategy into specific objectives and actions.

Chapter 4 provides literature on the extent to which strategy is implemented in organisations, and critical success factors to strategy implementation.

CHAPTER 4

EXTENT OF STRATEGY IMPLEMENTATION AND CRITICAL SUCCESS FACTORS

4.1 INTRODUCTION

This chapter focuses on the extent or level to which organisations implement strategies and the factors critical to successful strategy implementation. The assumption of is that strategy implementation in MFOs is low, which hinders their competitiveness and ability to expand services to the SMEs and poor households. According to Kazim (2008:1564), there is more attention given to strategy formulation than implementation, but it is in the implementation process that many activities and processes reveal their lack of value. This imbalance is caused by complexities in the process of implementation, and it has been found that organisations fail to implement 70% of their newly developed strategies.

According to Robin (2009), nine out of ten strategies fail to be implemented successfully, and implementing a strategy is harder than creating the right strategy. It is necessary to switch the focus from just crafting strategy to crafting and implementing it, and it is pointed out that organisations do not get value from the resources spent in strategy formulation if they fail to be implemented. Further, it has been found that for the 10% of organisations that successfully implement strategies, the strategic leaders doubled their efforts from what they spent crafting them. In some cases, leaders were aware that implementation required extra effort. In reality, however, very few were able to free up valuable time and resources to do justice to the implementation process. In other cases, leaders become so caught up in managing the day-to-day business that they lost sight of their goal to implement the new strategy, and as such took the wrong actions.

Morgan *et al*. (2007) acknowledge that the extent of strategy implementation is low, and point out the need for leaders in the organisation to create the right conditions to

facilitate strategy implementation. What was needed was to: employ the right people; clearly communicate the strategy objectives, create the key performance indicators (KPIs); align the culture to the implementation; redesign processes; change the way staff members were reinforced to encourage the right behaviours and actions for the new strategy to be implemented, and then review the strategy implementation regularly.

In view of the importance of strategy implementation, this chapter will explore the extent or level of strategy implementation in organisations, the key success factors for strategy implementation, and critical tools capable of supporting the strategy implementation process.

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4.2 EXTENT OR LEVEL OF STRATEGY IMPLEMENTATION IN ORGANISATIONS

In spite of the critical role competitive strategy plays in positioning an organisation in the industry, the success rate of strategy implementation appears to be low. The statement "great strategy, shame about implementation" (Okumus & Roper 1999:218) captures the essence of the problem that strategy implementation suffers from a general lack of attention by researchers and the low success rate in implementation. Epper *et al*. (2008:3) support this view and suggest that strategies frequently fail not because of inadequate strategy formulation, but because of insufficient implementation. Despite this, strategy implementation has received less research attention than strategy formulation. Therefore organisations fail to reap the benefits of competitive strategy because of the challenges of implementation.

According to Robin (2009:1), there is increasing understanding that implementing a strategy is harder than creating the right strategy, which has been the focus of the scholars and managers as it is estimated that nine out of ten strategies fail to be implemented successfully. Although strategies are expected to deliver growth, from 1917-1987 only 39 of the original Forbes 100 survived, and only two outperformed the market which further demonstrates the difficulties of making strategies a reality. This emphasises the need to shift the focus from just crafting strategy to crafting and

implementing it. It has been stated that U.S.A. managers spend more than $10 billion annually on strategic analysis and strategy formulation, so if 90% fail, then that is a waste of $9 billion, leading to the conclusion that the pendulum should swing from crafting strategy to implementing strategy.

Ian and Gavin (2001:1) in a study of 200 organisations in the Times 1000, indicate that despite 97% of the directors having a strategic vision, only 33% achieved significant strategic success. Further, although 80% had clear strategic plans, only 14% felt they were implementing the strategies, while all the organisations were trying to implement the strategies. These findings imply that having a vision and a strategic plan are not enough to ensure success and therefore there is a need to identify the causes of poor implementation and develop practical steps to improve strategy implementation.

Sterling (2003:27) points out that only 30% of planned strategies are implemented, while Deloitte and Touche (1999) maintain that as many as eight out of ten organisations fail to implement their strategies effectively. Corboy and Corrbui (1999:30) state that nearly 70% of strategic plans and strategies are never successfully implemented. Miller (2002:359) states that organisations fail to implement 70% of their strategic initiatives. Rapps (2005:141) states that only 10-30% of planned strategies are implemented. Mintzberg (1994:22) asserts that more than half of strategies devised by organisations are never implemented.

Edwards (2009:1) cites a weak relationship between strategy formulation and strategy execution, and quotes the Fortune magasine that “less than only 10% of strategies formulated are executed”. Despite this, organisations spend millions of dollars each year on strategy formulation, but only one out of ten organisations implements strategies – as for the rest, the well-crafted strategy is lost in the pressure of day-to-day tactical concerns or is left to languish in the CEO’s bookshelf.

Roberts (2007:1) notes that seven out of eight companies in a global sample of 1,854 corporations failed to achieve profitable growth, although more than 90% had detailed

strategic plans with much higher targets. This demonstrates the persistent gap between the strategic goals that organisations set for themselves and the results they achieve. Establishment of an office for strategy management is recommended to bridge the gap between strategy formulation and execution. The role of this office is to coordinate and manage strategy execution and facilitate integration of all the processes of the strategy. According to Scott (2006:2), 90% of strategies are not implemented, and challenges of strategy execution are cited as the number one challenge by managers and the number one reason why businesses fail.

According to Morgan *et al*. (2007) only 10% of strategies are successfully implemented and hence 90% of the organisations fail to implement strategies. This means that the business world is littered with well-intended failed strategies. Organisations spend a lot of resources on developing brilliant strategies but do not reap much benefit from the effort since a high proportion of the developed strategies fail to be implemented. The low level of strategy implementation and success indicates the need to focus on strategy implementation by identifying barriers to implementation and the development of tools and models that can be used by managers in support of strategy implementation.

Scholars and managers focus more on strategy formulation (Aaltonen & Ikavaiko 2002:415 & Otley 2003:243). It is necessary to shift focus from strategy formulation to implementation as the essence of strategic management is missed because of low strategy implementation (Lorange 1998:18). Noble (1999a:119) notes that there are widely approved models and frameworks for strategy formulation such as SWOT analysis, industry structure analysis and generic analysis, but there are no generally accepted models and frameworks to support strategy implementation.

Cocks (2010:5) noted that most organisations disappoint their stakeholders by their failure to deliver what they say they will do, what they promise, and what they promote to market. On the other hand, winning organisations say what they are going to do and then do it – and they keep doing it repeatedly. This is challenging because announcing

with great clarity what the organisation is planning to achieve sets an expectation and an unambiguous target for future performance. For most organisations, this invites an assessment of failure, but for winning organisations, it is an opportunity to demonstrate success.

To demonstrate that strategy implementation in most organisations is low, Allio (2005:12) found that 57% of organisations had been unsuccessful at executing strategic initiatives over the past three years. In addition, a *White Paper of Strategy Implementation of Chinese Corporations* in 2006 found that 83% of the surveyed organisations failed to implement their strategy smoothly, and only 17% felt that they had a consistent strategy implementation process. Raps (2005:141) has decried the low success rate of strategy implementation, and maintains that less than 10% of intended strategies are implemented. As a strategy moves towards implementation, the initial momentum is lost before the expected benefits are realised. Despite the challenges experienced in strategy implementation, this topic is not popular with practitioners and scholars. For example, managers mistake implementation for a strategic afterthought, and are more engrossed in strategy formulation. There is a need for a shift of emphasis from 90:10 to a minimum of 50:50 proportions of strategy formulation and implementation (Grundy 2000:43).

Bartlett and Ghosal (2001:7) assert that in all the organisations they have studied, the issue was not a poor understanding of environmental forces or inappropriate strategic intent. Without exception, the organisations knew what they needed to do but had difficulties in achieving the necessary changes. To support this finding, Miller (2002:359) reports that organisations fail to implement more than 70% of their new strategic initiatives. Given the state of low strategy formulation, the field of strategic management should shift to strategy formulation (Hussey, 1998; Lorange, 1999:18; Wilson, 1999:12).

Atkinson (2006:1441) points out that more than half of the strategies devised by organisations are never actually implemented. This author emphasises the need to implement strategies more than ever before, because of increasing competition,

globalisation, shorter lead times and increased customer sophistication. However, in spite of the low implementation of planned strategies, strategy implementation is overlooked in strategic management literature. It is pointed out that the field of strategy implementation is considered less glamorous as a subject area, and researchers often underestimate challenges of strategy implementation.

Atkinson (2006:1442) point out that strategy implementation in most of the organisations is challenging, and that most of the planned strategies are never realised. However, the authors decry the need for effective implementation of the strategies due to the dynamic and volatile environment characterised by escalating globalisation, increased competition, enhanced product differentiation, customer sophistication and an emphasis on intellectual capital. Kazim (2008:1564) states that a nicely drafted strategic plan by accomplished consultants and senior managers through a sophisticated process is likely to fail during implementation. In spite of failure during implementation, strategy implentation is sidelined by both strategic thinkers and senior managers and hence literature is dominated by strategy formulation. Therefore there is a need to bridge the gap between strategy formulation and implementation.

Ali, Barca and Karayormuk (2009:77) cite a study conducted by Fortune magasine that reveals that 90% of strategies are not successful, and the single most important cause is weak implementation of these strategies. Further, the authors indicate that 70% of change-orientated attempts in the name of change strategies are unsuccessful. These authors indicate that both the practitioners and academicians should investigate why strategies fail to produce success that was planned to take place.

Alexander (1999:73) agrees that strategy implementation in organisations is low and attributes this to managers' and supervisors' lack of theoretical and practical sound models to guide their actions during implementation. Without a good model, they try to implement strategies without a good understanding of the multiple factors that must be addressed to make implementation successful. Kaplan and Norton (2001), the

originators of the Balance Scorecard, state that 90% of organisations fail to execute their strategies successfully.

According to Terry (2011:1), strategic planning is crucial to profitable business growth, but organisations typically realise only about 63% of their business strategy's potential financial value because of defects and breakdowns in strategic planning and implementation. The author acknowledges that there is a huge potential of getting the strategic plan implemented but managers must be able to overcome common mistakes that occur during implementation.

It should be clear that there is consensus among the authors cited above that strategy implementation is low in most organisations, yet there is little attention towards strategy implementation. Further, strategy implementation is more complex than strategy formulation, and leaders fail to establish necessary conditions in organisation to facilitate strategy implementation such as employing the right people, communicating the strategy, aligning the work processes and systems to the strategy, and managing the culture change. The section below highlights the key success factors necessary for successful strategy implementation, and is aimed at bridging the gap between strategy formulation and implementation.

4.3 CRITICAL SUCCESS FACTORS TO IMPLEMENT STRATEGY

According to Hrebiniak (2006:14), improving strategy execution is a gradual process and there are certain tangible things organisations can do to improve performance. The steps organisations can take to realise incremental gains include: development of a strategy execution model; selection of the right metrics to assess performance; and ensuring the plan is not forgotten and is at the core of all operations. In addition to frequent assessment of performance, organisations can also reward the right things: clear responsibility and accountability; develop capabilities and managerial skills; continuous communication at all levels; and focus on managing change.

Bossidy and Charan (2002) maintain that successful strategy implementation depends on three building blocks:

- Leadership skills to enable leaders remain in touch with the business and yet avoid becoming micro-managers. These leadership elements include: knowledge of the people; setting clear goals; follow-ups; rewarding the doers and expanding people's capabilities.
- Focus on a framework for organisational change where culture change is linked to outcomes, for example linking a reward system to performance.
- Putting the right people in the right places to ensure the organisation maximises its human capital.

De Flander (2009:1) maintains that to achieve success in strategy implementation, an organisation must: link individual and organisational performance;have top-down and bottom-up execution processes; focus on execution improvement over time; simplify the strategy (easy to remember and communicate); have a top manager being the key strategy executor; manage initiatives, setting of individual objectives; monitor and coach staff and evaluate performance. According to Edwards (2009:1), critical factors to ensure strategy are: effective communication of strategy at all levels; generation of enthusiasm and buy-in at all levels; building commitment to business results; design of an organisational structure that allows empowerment and communication; formulation of tactical and short-term goals at lower levels, and effective action planning.

According to Michelle (2010:1), implementation of the strategic plan is the most important aspect of strategic management and identifying the barriers to implementation and overcoming them is a key success factor for any organisation. The key factors to enhance success in strategy implementation include teamwork, resolution of conflicting priorities or hidden agendas and accountability for delivery of results.

David (2010:1) cited the following critical factors to effective strategy implementation:

- alignment and engagement of organisational units and employees to the organisation's core foundation;

- strategy and corresponding initiatives;
- creations of new forms of accountability that allow employees freedom to operate and contribute within the context of strategic initiatives;
- other factors include: immediate response to performance gaps and implementation of course of corrections, adaptation of the plan to an ever changing environment, two-way communication to assess progress and automation of processes.

Roberts (2007:13) indicates that a strategy without action has little value. However, it cannot be executed in a dysfunctional organisation. The root of good strategy implementation is leadership not only at the top but across all functions in the organisation, a structure aligned to the strategy, people with the required skills and a culture that supports the strategy.

Cees, Berenes and Marjorie (2008:27) suggest that the degree of successful strategy implementation in organisations is influenced by several factors as controlled by managers. These factors include the following:

- Internal rewards and control systems determine the degree to which employees attach importance to the strategic objectives and behave in accordance with them;
- A higher degree of decentralisation within an organisation results in more successful strategy implementation;
- Formal cross functional structures are essential to enable cooperation among the different departments;
- Degree to which senior managers supports strategy is related to the degree the employees accept the strategy and their performance in implementing the strategy;
- Staff training and development will enhance strategy implementation;
- The amount of information and the manner in which it is communicated affect the degree of strategic consensus in the organisation and the overall success of strategy implementation in the organisation.

These factors are categorised as “soft factors” (related to interactive processes between managers and employees) and “hard factors” (related to organisational systems and structures). Managers must deal with both hard and soft factors to implement the

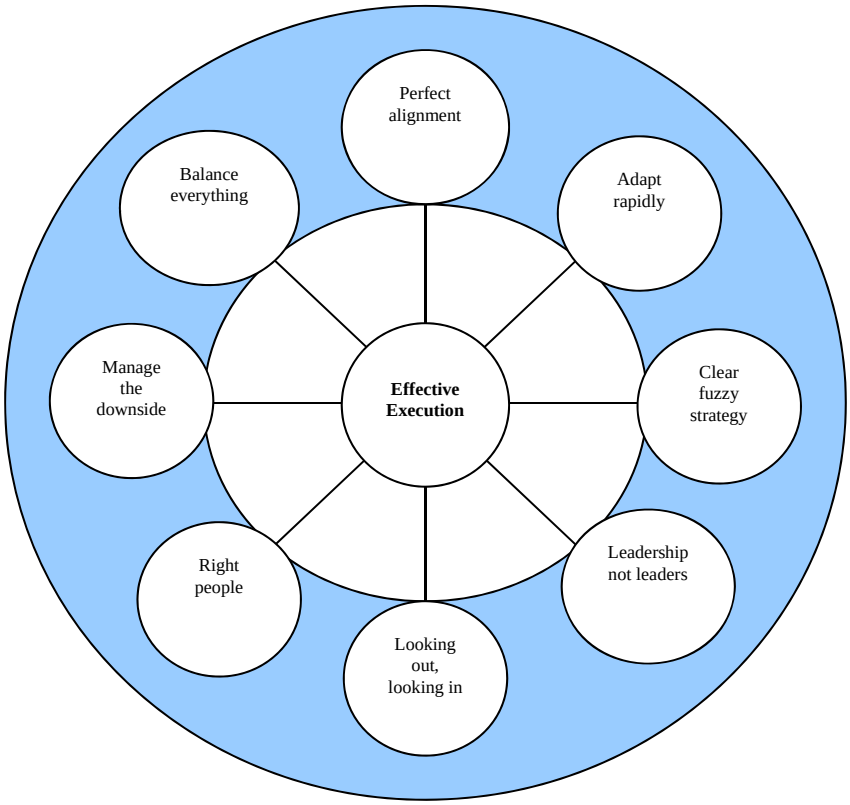
strategy successfully. According to Ian and Gavin (2001:1), the following actions are recommended to ensure success in strategy implementation:

- Enhance articulation of strategy by having a good strategic vision for the organisation that describes clearly what the leadership expects the organisation to achieve over a specified period. The vision will then drive identification of short, medium and long-term objectives;
- Enhanced strategic communication and feedback tools to allow efficient communication and cascading of the strategy across the entire organisation;
- Alignment of existing processes and corporate behaviors to support strategic implementation.

The above actions will drive greater success in achieving strategic objectives and implementing strategies.

Raffoni (2008) notes that the frequent causes of breakdown in strategy implementation relate to the capabilities, processes and activities that are needed to bring the strategy to life. Effective strategy implementation calls for unique, creative skills including leadership, precision, attention to detail, breaking down complexity into digestible tasks and activities and communicating in clear and concise ways throughout the organisation to all its stakeholders. In addition, control and feedback mechanisms are also necessary to ensure that operations are aligned with the business strategy. Hubbard, Samuel, Cocks and Heap (2007:1), in a study of eleven successful organisations for 25 years identified nine common elements attributed to their long-term success, namely effective execution, perfect alignment, adapting rapidly, clear and fuzzy strategy, leadership not leaders, looking out and looking in, right people, managing the downside and balancing everything. Figure 4.1 depicts a balancing framework for organisational excellence.

Figure 4.1: Winning framework for organisational excellence



Source: Hubbard *et al*. (2007)

The above figure shows the central, pivotal role of effective execution, depicted as both an element of the framework and as representing the outcome of the total framework. All the elements of a winning organisation are connected together to steer the organisation towards its mission and goals. The figure also shows all the elements are integrative which means they are important and a change in one precipitates a change in another.

Cocks (2010:3) explains that strategy implementation is an extremely broad and complex issue and suggests that there are important drivers required for effective strategy implementation, such as focused leadership, communication through visible management systems and the use of project management techniques. These aspects will be discussed in the paragraphs that follow.

Cocks (2010:5) describes the following as the characteristics of focused leadership aimed at successful strategy implementation:

- Staying focused means *a realistic attitude, simplicity and clarity*. It means asking some questions and seeking the answers. For example, is the strategic plan realistic given current resources and workloads? Or, what should be given up or stop to give way to the new strategy? How will we separate from the past? This view is also supported by Raffoni (2008).
- *Simplify the content of the strategy to communicate to people at all levels* of the organisation. Messages on the critical areas should repeatedly be reinforced at all times to enhance understanding.
- Effective leadership involves *motivating people by being accessible, visible, and asking inclusive questions rather than providing solutions*. It means getting rid of slow movers and non-performers, and selecting people with the right attitude and values to fit with the culture and strategic intent of the organisation. It means involving people in setting objectives and targets, since people normally meet or exceed targets if they are included in setting them in the first place. Such targets must be aligned to the needs of the customer and the marketplace. Additionally people should be given every chance to perform these objectives by investing in training and support systems and mistakes are accepted if they are admitted early but not repeated. These views expressed by Cocks (2010) are also echoed by Hubbard *et al*. (2007:10).
- Effective leadership must *hold employees accountable for results, must create leaders across the organisation* particularly at the front line where people and core process create value for customers. Effective leadership means being able to speak the language of strategy as well as the language of operations. Leaders are able to develop, receive and interpret strategic plans and cascade them in a clear and understandable way for all employees. They know when and how to manage upwards to negotiate resources and provide candid feedback.
- Successful leaders are usually developed from within because they know how to get things done through the culture. They are aware of the pockets of resistance and non-performing units of the organisation. Leaders invest in their people and

recognise that the right people, not technologies, provide the only enduring source of creativity, improvement and change. This view is also supported by Varon (2002:3).

According to Cocks (2010:7), robust and visible management systems are a prerequisite for effective execution of strategy – these include operating systems, information, decision-making and reward systems. Operating systems represent the heart of the organisation's ability to implement its strategy since if core systems and processes are not capable of producing and delivering the required products and services, the organisation will fail to deliver value to customers. High-performing organisations strive for close alignment of systems to achieve consistency, operational efficiency and commonality of purpose. However, achieving results from a system depends on the way people behave in the system since they are needed to operate the systems or use their outputs. People need to take responsibility individually and in their teams, measure performance against targets, provide feedback on the performance and reward based on the results. With appropriate systems, people have great incentives to deliver – positive competition, personal financial gain and an opportunity for promotion and personal satisfaction from being responsible and achieving results.

The failure of an organisation to communicate its position and future strategy to all employees and acceptability of the messages creates perception gaps, leading to ineffective execution. Communication channels should be highly visible in the workplace using scorecards, dashboards, flowcharts and tools for problem-solving and project management. The goal of visible management is to balance detail with relevance, then to balance resources and accountability and to measure actual progress and performance. Visible management systems become pervasive by creating ownership and making the numbers to speak for themselves and tend to encourage objective and rational team debate and learning.

Cocks (2010:7) advocates the use of project management tools such as action plans, budgets, Gant charts, network analysis to identify critical path, dashboard, and

flowcharts. Figure 4.2 shows the three key components namely focused leadership of the right people, communication through visible management systems and use of project management techniques that are critical to successful strategy implementation.

Figure 4.2: Key elements of successful strategy implementation

Source: Own construct

Cocks (2010:8) identified several factors that help implement strategic plans in all types of organisations including:

- Strategic planning requires integration of strategy formulation with strategy implementation.
- Effective execution is a key attribute of successful organisations.
- Provide focused leadership of the right people.
- Create highly visible management systems to communicate widely and consistently.
- Use project management techniques to deploy the strategic plan.

Chapman (2004:1) concurs that there is a low state of strategy implementation in most organisations and states that effective strategy realisation is critical for achieving

strategic success. The following three key elements are critical in achieving successful strategy implementation:

- *Motivational leadership* - concentrates on achieving sustained performance through personal growth, values-based leadership and planning that recognises human dynamics. Leadership is the common thread which runs through the entire process of translating strategy into results and is the key to engaging the hearts and minds of people;
- *Turning strategy into action* - entails a phased approach, linking identified performance factors with strategic initiatives and projects designed to develop and optimise departmental and individual activities;
- *Performance management* - involving the construction of organisational processes and capabilities necessary to achieve performance through people delivering results.

Crawford and Brewin (2004) state that managers must overcome these various barriers to strategy implementation by adopting a strategic management performance approach which is a dynamic process that requires information sharing, coordination and effective control and feedback mechanisms throughout the hierarchy of strategies to help the organisation make these strategies to work. The framework of strategic management performance includes: process, governance, information technology, structure, people and culture. Each of the elements must be strategically aligned for successful strategy implementation.

According to Terry (2011:1), implementation effectiveness is measured by how well the business meets the financial projections set out in the strategic plan. Further, the goals articulated in the strategic plan should drive marketing and sales efforts, human resources practices, research and development. These goals become a central part of the business by guiding daily operational activities. Four actions that are crucial to implementation of the strategic plan are outlined in Table 4.1.

Table 4.1: Key actions of strategy implementation

Four key actions	Some highlights on the four actions
1. Avoid common implementation mistakes	Managers should not allow operating problems to dictate or deter long-range strategic planning. Some of the common problems are : • *Lack of communication.* The strategic plan is not communicated to front-line employees, who are therefore working in the dark. • *Losing sight.* Managers are so tied up in day-to-day operating problems that they lose sight of the long-term strategic goals. • *"Bolt-on" syndrome.* The strategic plan is treated as something separate and removed from the daily management of the business. • *Business as usual.* Once the strategic plan has been drawn up, managers simply carry on as before. • *Wimping out.* Management recoils from making the tough choices that the strategic plan may call for. • *The wrong scoreboard.* Managers measure what is easy, not what is important. • *No yardstick.* The business neglects to benchmark itself against its competitors, so it cannot measure its progress against them. • *The be-all and end-all.* Management sees the strategic planning document as an end in itself. • *Confusing terminology and language.* People do not understand what you want because it is not expressed clearly in the strategic plan.
2. Reach out to stakeholders	• Employees need to have a buy-in so that they can act and think strategically • Share the strategic plan with other stakeholders, such as investors, customers and alliance partners to have a buy-in.
3. Measure progress of the strategic plan	• Decide the right measurements for the long-term strategic goals such as revenue, sales turnover, and number of customers.
4. Monitor the strategic plan	To keep the strategic plan alive, monitor it. The following are some methods of monitoring the strategic plan: • *Regular updates.* Review progress on a monthly or quarterly basis, depending on the level of activity and time frame of the strategic plan. • *Challenge underlying assumptions.* While monitoring the strategic plan's progress, continue to examine underlying assumptions, the continued validity of its strategic objectives and the influence of unanticipated events.

	• *Create a champion for every strategy and action.* The strategy champion has to be someone other than the CEO, because the latter is not accountable to anyone. The strategy champion does not necessarily have to complete the actions, but must see that they get done. • *Stay committed.* Every strategy-related action must have a due date. As CEO you can let the due date slip, but don't let it go away. This tells the strategy champion that you are not giving up on the strategy. If you keep following up, the strategy champion will see that you are serious about the strategy and putting it into effect. • *Conduct short-term strategy reviews.* We suggest scheduling team "huddles" every 90 days to keep the strategic plan reviewed, reloaded and re-energised. These huddles also allow you to distinguish those individuals who are getting things done and those who are not. • *Expand skills.* In the weeks and months following the strategic planning process, expand employee skills through training, recruitment or acquisition to include new competencies required by the strategic plan. • *Target sales.* Sales and marketing tools form the link between business strategy and sales strategy. Designed correctly, these sales tools communicate an organisation's value and message to the marketplace, and generate positive feedback from customers and clients. • *Set strategic plan milestones.* Go beyond monitoring: build into the strategic plan milestones that must be achieved within a specific time frame. Many organisations do this on a monthly or weekly basis. • *Reward success.* Find creative ways to motivate people and reward them for focusing on the strategy and vision. Establish some positive/negative consequences for achieving/not achieving the organisation's stated strategy.

Source: Own construct

Epper *et al*. (2008:1) have identified 13 factors that are critical for successful strategy implementation and divided them into soft, hard and mixed factors. *Soft factors* (or people-orientated factors) include the people or executors of the strategy, the communication activities, implementation tactics, the consensus on strategy and commitment to the strategy, while the *hard (or institutional) factors* include the organisational structure and administrative systems. The process in which the strategy is developed and articulated includes hard and soft factors alike. This is considered as *a*

mixed factor. Relationships among different units/departments and different strategy levels is also treated as a mixed factor. Table 4.2 below shows a summary of these factors.

Table 4.2: Factors critical to strategy implementation

Types of factors	Factors affecting strategy implementation
Mixed factors	• A clear strategy with a good idea /concept and involvement of top and middle managers during its formulation • Well defined corporate-business unit structures, processes and cross working relationship across the units
Soft factors	• Quality of people involved in implementation (skills, attitudes, capabilities, experiences and other characteristics of people required by a specific task or position) • High level involvement of people across the organisation • Top management should steer strategy implementation • Middle level managers capabilities and leadership style • Lower management and operating employees must understand the importance of strategy and must have sufficient capabilities • Effective communication across the organisation. Some of the communication aspects will include: reason behind the new strategy, new responsibilities, tasks, duties that require to be performed by the affected employees and easy access to management through open and supportive communication climate • Use of implementation tactics by managers such as intervention, participation, persuasion and edict • Achieve consensus on the organisational strategy for both internal and external stakeholders • Commitment and support by employees and middle managers
Hard factors	• Structure aligned to strategy at all levels of the organisation • Administrative systems that can facilitate strategy implementation

Source: Adapted from Epper *et al*. (2008)

Epper *et al*. (2008) acknowledge the above list is not comprehensive since many other issues could potentially affect strategy implementation, such as organisational culture, size of the organisation, external environment, market environment, power structure, material resources and rewards or incentives.

For strategy implementation to be successful, Thompson, Strickland and Gamble (2006) propose the following framework:

- *Staffing* the organisation with the needed skills and expertise, consciously building and strengthening strategy-supportive competencies and competitive capabilities, and organising the work effort.
- Creating organisation *culture* and work climate conducive to successful strategy implementation and execution.
- Developing *budgets* that steer ample resources into those activities critical to strategic success.
- Ensuring that *policies and operating procedures* facilitate rather than impede effective execution.
- Using the *best-known practices* to perform core business activities and pushing for continuous improvement. Organisation units must periodically reassess how things are being done and diligently pursue useful changes and improvements
- Installing *information and operating systems* that enable organisation personnel to carry out their strategic roles day in and day out.
- *Motivating people* to pursue the target objectives energetically and, if needed, modifying their duties and job behaviour to fit the requirements of successful strategy execution.
- Tying *rewards and incentives* directly to the achievement of performance objectives and good strategy execution.
- Exerting *internal leadership* needed to drive implementation forward and keep improving on how the strategy is being executed. When stumbling blocks or weaknesses are encountered, management must see that they are addressed and rectified on a timely basis.

Feo and Jansen (2001:4) suggest 10 steps for strategy implementation to be successful. These are: establish a vision, agree on a mission, develop key strategies, develop strategic goals, establish values, communicate organisation policies, provide top management leadership, deploy goals, measure process, and review progress.

Further, according to Wheelen and Hunger (2006), the most important activities involved in strategy implementation should include the following:

- Involving people from all organisational levels in strategy implementation, for example allocating the responsibility for strategy execution;
- Developing programmes, budgets and procedures;
- Organising strategy implementation;
- Staffing to match the managers and employees with the strategy;
- Leading by coaching people to use their abilities and skills most effectively and efficiently to achieve the organisational objectives.

From the above literature review, organisations must establish the necessary conditions to facilitate strategy implementation. The number and types of necessary conditions for successful strategy implementation differ with the authors. The discipline for strategic management is yet to develop commonly agreed strategy implementation frameworks that can be used by managers. . This study will seek to identify key factors affecting strategy implementation in MFOs.

4.4 TOOLS FOR STRATEGY IMPLEMENTATION

While most of scholars and managers acknowledge that it is easier to formulate a strategy than implementing it, there are many tools and techniques for crafting a strategy but there are very few for implementing it (Robin, 2009:1). The view is supported by Roberts (2007) that for many years the focus in strategic management has been on formulating a good strategy and a plethora of tools and techniques has been created to assist in strategy formulation but there are limited resources to support strategy implementation. Some of the tools for *strategy formulation* include:

- *SWOT analysis*: This tool is used to assess and organise the internal environment in terms of strengths and weaknesses and the external environment in terms of opportunities and threats;
- *Portfolio analysis*: This is a systematic way to analyse the products and services that make up a business portfolio. The analysis helps in making decisions regarding

which products and services should be emphasised and which should be phased out, based on objective criteria. Portfolio analysis consists of subjecting each of the products and services to a progression of finer screens. A programme evaluation matrix is used to assess all the products (Forbes Group, 2013:1);

- *Porter's five forces model and generic strategies*: Porter identified five factors that act together to determine the nature of competition in an industry. These are:
  - the threat of new entrants to a market;
  - the bargaining power of suppliers;
  - the bargaining power of customers (buyers);
  - the threat of substitute products;
  - the degree of competitive rivalry.

  Further, Porter (2004:3) suggests that businesses can secure a sustainable competitive advantage by adopting one of three generic strategies. The three generic strategies are: *Cost leadership strategy* – which involves the organisation aiming to be the lowest cost producer and/or distributor in the industry; *Differentiation strategy* – to be different, is what organisations strive for. Product ranges that appeal to customers and "stand out from the crowd" have a competitive advantage; *Focus (niche) strategy* – under a focus strategy a business focuses its effort on one particular segment of the market and aims to become well known for providing products/services for that segment.
- *Stakeholder analysis*: This involves identification and analysis of primary and secondary stakeholders who are interested in the organisation or in a project. Stakeholders' needs and interests are identified and analysed on their impact to the organisation. In planning, key stakeholders are involved to ensure that there is buy-in to the strategy, to understand it and to support its implementation. Several frameworks for stakeholders' analysis exist (Babou, 2008:1).

Attention should focus on what happens after a strategy has been formulated, which justifies the essence of this study that will expand knowledge of strategy implementation

in MFOs. This section will explore tools that are available to support implementation of strategies.

Wilson (1999:14), states that while there are commonly agreed upon tools for strategy formulation such as SWOT, industry structure analysis and generic strategies for researchers and practising managers in the areas of strategy analysis and strategy formulation in strategic management, there are no agreed dominant tools and frameworks for strategy implementation. In line with this statement, Alexander (1999:74) states that a key reason why strategy implementation fails is that practising executives, managers and supervisors do not have models to guide their actions during strategy implementation.

The following section highlights some of the most common tools that can be used in strategy implementation. An in-depth discussion of these however falls outside the scope of this study.

4.4.1 Project management techniques

Project management is a strategic competency of applying of knowledge, skills and techniques to execute projects successfully, therefore linking project results to organisational goals (Andersen, 2010:4). According to Meredith and Mantel (2003:19), an organisation's strategy can be viewed as a programme made of a series of projects, each requiring planning and allocation of resources to deliver results on time and on budget. These are the same challenges faced by project managers who apply a set of tools and techniques in their specialised field of management to balance the constraints of time and costs in projects. These authors argue that the tools and techniques used for project management are also applicable for strategy implementation.

Cocks (2010:7) supports this view and advocates the use of project management tools for effective strategy implementation. The author advocates the use of a *Gantt chart* to ensure that the strategy is broken down into small implementable parts, and suggests

the use of a *network diagram* to identify the critical path so that activities are implemented on time. It is noted that such tools are not used in strategy execution but there is increasing appreciation of the use of project management tools to support strategy implementation across the organisation. Further, project management emphasises the importance of planning as much as it focuses on implementation. The same should be true for strategy execution. It is acknowledged that the tools and techniques used in project management are also useful in strategy implementation. Like project management, strategy implementation requires monitoring of performance, usually through identification of milestones, critical success factors and thresholds (Julian, 2008:44). In addition, effective strategy execution, like project management, needs regular and structured meetings and communication. People issues and resources should head the agenda at review meetings. Assuming the plan is clear and has been communicated, the next step is to allocate the best people with the right skills to the right jobs. If execution is still not proceeding to plan, it is likely that inadequate resources have been allocated, or people need different skills to get the job done.

4.4.2 Action planning and budgeting

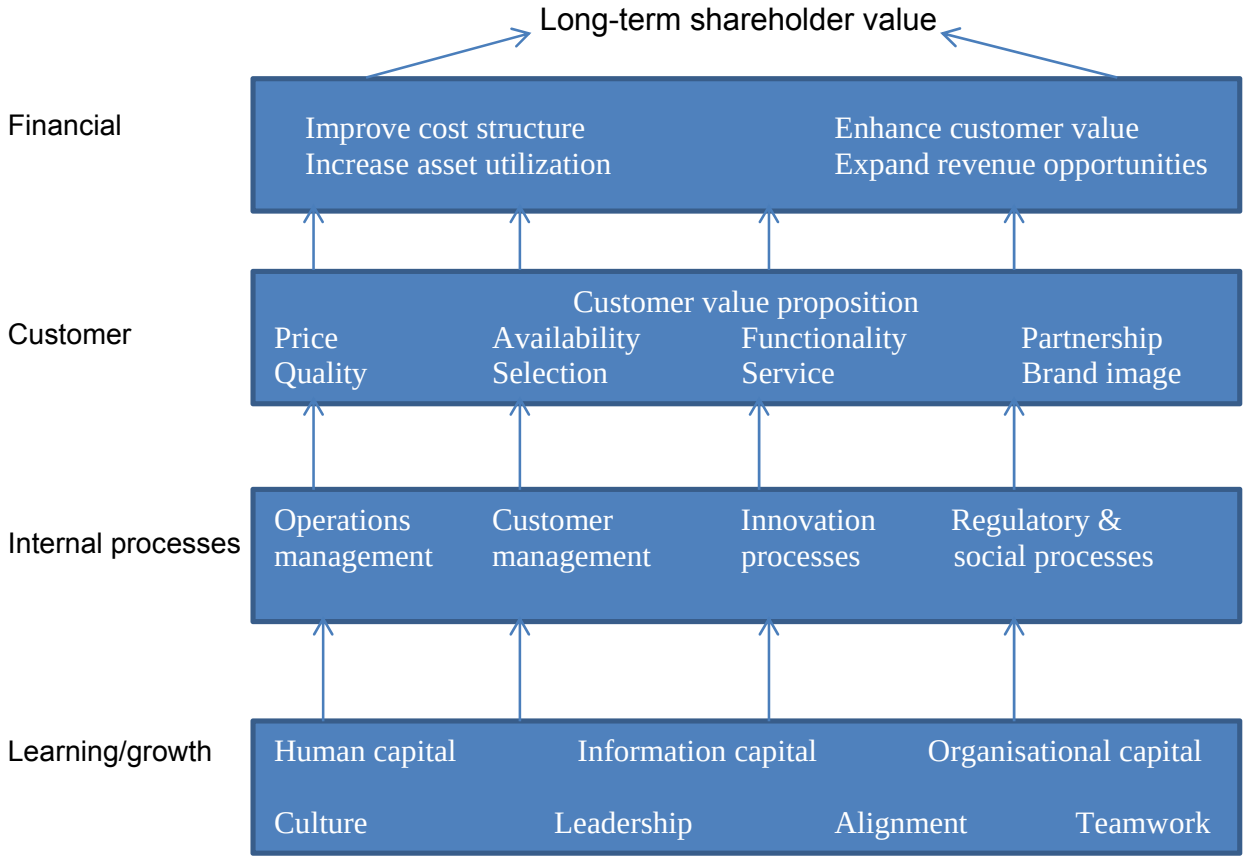
According to Sterling (2003:31), action planning and budgeting are among the oldest tools but they remain effective for ensuring that implementation occurs and that tactics are aligned with the strategy. Hence, activities to be implemented should be planned for and budgeted. "Action planning" refers to activities to be performed well for a strategy to succeed, including specific tasks, time horizon and resource allocation (Business Dictionary, 2013a). This is achieved by breaking down developed strategies into smaller, achievable steps and identifying actions needed for each step. "Budgeting" refers to the estimated costs, revenues and resources over a specified period of time. Budgeting's central role is to support strategy implementation through the allocation of resources to key initiatives that drive measurement and provide desired outcomes (Kaplan & Norton, 2005:1).

4.4.3 Balanced scorecard technique

In response to external changes in the business environment, performance management systems have emerged to improve strategy implementation. While budgets have been the most common control tools, new performance management systems are multidimensional because they include financial and non-financial measures. The balanced scorecard developed by Kaplan and Norton in 1992 is one of the most common performance management tools. The tool links organisations' long-term intentions with short-term operational actions (Norrekilt, 2000, Speckbacher, Bischof & Pfeiffer 2003 and Bourne, Neely, Mills & Platts 2003). The balanced scorecard provides organisations' management with a set of measures that give a comprehensive view of the business in terms of four key perspectives within which a vision, strategy and goals are articulated before translating them into specific initiatives, targets and measures. The four perspectives are financial, customer, internal business, and learning/growth. Further, Ian and Gavin (2001:5) indicate that the use of balanced scorecards improves strategic management capabilities towards strategy implementation and its development process is a sure way of introducing the three improvements required in the organisation, namely articulation of strategy, enhanced communication and feedback and alignment of processes to support strategy implementation.

The balanced scorecard is a powerful tool for supporting strategy implementation initiatives. The tool was developed by Kaplan and Norton (1992) to include both financial measures that report the results of actions already taken and operational measures on customer satisfaction, internal processes and improvement activities – operational measures that are drivers for future financial performance (Kaplan and Norton, 2001). Unlike the traditional systems, the balanced scorecard puts strategy, vision and communication in the centre rather than control. The format of the balanced scored card is depicted in Figure 4.3 below.

Figure 4.3: Key measures of the balanced scorecard



Source: Kaplan (2005:45)

Evidence on the success of the balanced scorecard has been reported across many industries and sectors (Hepworth, 2000:559). According to Marr and Schuima (2003), 60% of Fortune 1000 companies are reported to use a balanced scorecard performance measurement system. However, attention has been drawn to the complexity of the system and the need for commitment to accepting it for the success of its application, and many pitfalls and problems have been identified in practice (Kaplan & Norton, 2001) but no failures of the concept were identified (Hepworth, 2000:559). The advantage of the tool compared with some traditional tools such as budgeting are as follows: it provides balanced organisational assessment, combines financial and non-financial

indicators, focuses on drivers of performance, and is a powerful tool for linking strategy and operations (Atkinson & Brander, 2001). Although the use of the balanced scorecard lacks empirical studies, organisations that are using the tool have reported improved performance, which illustrates that the tool is effective in linking the long-term strategic goals with short-term operational planning. Contrary to the claim of being the best practice in strategy implementation, balanced scoredcard technique does not solve all implementation problems or provide new insights into strategy implementation because the four implementation factors and sub-factors are similar to factors identified by previous scholars. The balanced scorecard is a control mechanism suggesting a top-down approach with little participation from lower levels. Further, strategy formulation and implementation are regarded as two separate phases, and finally the tool does not give attention to problems experienced during the implementation process, such as conflicts, struggles among interest groups, organisational culture and resource allocation (Creelman, 2000:, Norreklit, 2000:70 and Okumus, 2003:875).

According to Metawie (2005:6), the main weakness of the balanced scorecard is that it is primarily designed to provide senior managers with an overall view of performance, thus, is not intended for, or applicable, at the factory operational level. Moreover, as a multi-stakeholders approach, it has been criticised for not considering the interests of all stakeholders, such as suppliers, competitors, regulators, and the community. Further, Brignal and Modell (2000:281) argue that the balanced scorecard literature has neglected the relative bargaining power of different stakeholders in determining whose interests will predominate in an organisation, which affects which aspects of performance are measured, reported and acted upon. However, while Kaplan and Norton (2001:87) acknowledge there are many pitfalls and problems identified in the use of the balanced scorecard, no failures of the concept have been identified. This means that the main problem is the application of the framework and not the framework itself.

According to the originators of the performance measurement framework, it is effective and helps organisations to improve performance and focus on their strategies and

vision. Studies of the effectiveness of the BSC have elicited different views; some state that there is a high failure rate in the application of the framework while others have concluded that the framework is effective in supporting organisations in implementing strategies and achieve high performance. The assumption of the present study is that the use of BSC supports implementation of strategy, leading to high performance of organisations. For this reason, the use of performance measurement frameworks and strategy control systems has been identified as a factor that either supports MFOs to implement strategy or acts as an impediment if not used.

4.5 CONCLUSION

Strategic control tools are essential to ensure that the long-term strategy is linked with an organisation's short-term operational demands. Successful strategy implementation is substantially dependent on strategic control and management systems. The systems need to incorporate information that can enable managers to track progress or get to know how they are doing, while also providing opportunities to adapt and revise strategies when required (Atkinson, 2006:1444). However, while strategy formulation has commonly agreed tools, they are lacking in strategy implementation. Lack of such tools is cited as a cause of failure in strategy implementation, While some authors advocate the use of project management tools in strategy implementation, there is no consensus about this approach. Further, while the balanced scorecard is widely recognised and used, there are limited empirical studies to ascertain its effectiveness in supporting strategy implementation, and the few studies that have been carried out have elicited different views. Hence, there is a need to identify all possible tools that are effective in supporting an organisation's implementation strategy.

In Chapter 5 a proposed hypothetical model of the study will be highlighted.

CHAPTER 5

PROPOSED HYPOTHETICAL MODEL OF THE STUDY

5.1 INTRODUCTION

The need for a framework or a model in the field of strategy implementation, aimed at MFOs is required. The reasons are obvious; it is an extremely complex set of tasks (Kazim 2008:1565). Having a framework of strategy implementation is like having a roadmap in alien territory. In the absence of such a framework, managers could still implement their strategies but these would be based on personal thinking, resulting in disjointed and conflicting actions. A framework on the other hand, can serve as a beacon to guide managers on various levels spread over different functional areas within the organisation (Okumus 2003:871). For example, Noble (1999b:132) has noted the significant need for models to guide strategy implementation and points out that implementation research has remained fragmented due to a lack of models to build upon. This chapter aims to review and analyse previous frameworks and present a framework for this study. The study has presented a model that can be used by managers to guide implementation, and researchers can use it as a basis for making further contributions to the field of strategy implementation.

This chapter provides a review of existing models of strategy implementation, the proposed hypothetical model of this study, the operationalisation of the research variables, and the hypotheses to be tested during the empirical research.

5.2 A REVIEW OF EXISTING MODELS OF STRATEGY IMPLEMENTATION

While there are a number of commonly used models and frameworks for strategic analysis and strategy formulation, such as SWOT analysis, five-forces model, value-chain analysis, generic competitive strategies and product-portfolio analysis, there are relatively few models developed for strategy implementation, and there is no model

which is generally accepted by practitioners and scholars (Hussey 1998). This is despite the fact that strategy implementation has a central role in the strategic management process. Researchers point out that for over two decades no commonly accepted frameworks have emerged for strategy implementation (Alexander 1999; Noble 1999b; Okumus 2003; Wilson 1999). As a result, various authors have cited the need for increased attention in the area of strategy implementation, indicating that there should be a shift from strategy formulation to strategy implementation. Noble (1999b:32) has pointed to the need for comprehensive conceptual models related to strategy implementation, and notes that implementation research has been fairly fragmented due to a lack of clear models on which to build. It suffices to mention that the motivation for this study is to increase knowledge in the area of strategy implementation and to identify factors that can be used by managers to implement strategies.

Although there are no generally and widely accepted models for strategy implementation, researchers have identified many contingency factors that affect the outcome of strategy implementation in organisations. While some researchers have listed single factors, others have listed factors and generated relationships between various factors leading to the development of strategy implementation models. This chapter will focus on these models and not on specific single factors which have been dealt with in Chapter 4. This section will discuss most of the frameworks that emerged in the early 1980s and 1990s and the latest frameworks.

Several frameworks have been proposed since the early 1980s when the first framework appeared (see for example Waterman, Peters & Philips 2001; Galbraith & Kazanjian 1986; Hbrebiniak & Joyce 1984; Reed & Buckley 1988; and Stonich 1982). However, none of these early frameworks was empirically tested, and the need to deploy frameworks based on empirical research has been proposed by various researchers. This prompted the empirical research carried out by Pettigree and Whipp (1991) who developed a framework for strategic change (Okumus 2001 and Bryson and Bromiley 1993). It is noted that various factors critical to strategy implementation listed in these frameworks are similar to the factors reflected in the frameworks that emerged

later (see for example Alexander 1999; Judson 1995; Miler & Dess 1996; and Thomson & Strickland 1999). According to Okumus 2003:872, common factors proposed by these models include strategy formulation, organisational structure, culture, people, communication, control and outcomes. A key concern from the researchers and managers is that most of the frameworks that emerged during the early 1980s and 1990s were not empirically tested, and the need for them to be tested before they are adopted by managers prompted some researchers to develop and test these frameworks. Table 5.1 provides a summary of strategy implementation frameworks.

Table 5.1 Summary of previous strategy implementation frameworks

Researcher	Focus of the studies	Key findings and elements of strategy implementation success
Hambrick & Cannella (1989)	Multi-businesses	Communication plays a central role in successful strategy implementation
Skivington & Daft (1991)	Petroleum organisation	Process and structural factors influencing differentiation/low cost strategies, intended strategy, structure, systems, interactions and sanctions
Roth, Schweigner & Morrison (1991)	82 business units in multinational companies	Six organisational design factors for implementing global or multi-domestic strategies are: coordination, managerial philosophy, configuration, formalisation, centralisation and integrating mechanisms
Hrebiniak (1992)	Global companies	Facilitating global learning , leadership, developing global managers , matrix structure and strategic alliances with external companies
Yip (1992)	Global companies	Organisational structure, culture, people and managerial processes
Schmelzer & Olsen (1994)	Three restaurant companies	Organisation size and geographical location , lifecycle stage of the organisational and demographic background of the managers
Feurer, Chahrbabghi & Warginm (1995)	Global IT organisation	Cross functional teams, learning , organisational structure and culture
Miller (1997)	Six public/ private companies	• Realising factors: backing, assess ability, specificity, cultural receptivity • Enabling factors: familiarity, priority, resource availability, structural facilitation and flexibility • Realisers were more critical in implementing strategic decisions than enablers

Okumus (2001)	Two international organisations	Multiple project implementation, organisational learning and working with external companies
Kaplan & Norton (1996, 2001)	Organisation case studies (Kaplan 1995 survey)	Clarifying and translating vision and strategy, communication and linking planning and target setting and strategic feedback and learning
Hacker, Kotnour & Mallak (2001)	Three US government agencies	Communication, improvement of infrastructure, identify drivers and develop action plans
Aaltonen & Ikavaiko (2002)	Twelve service organisations	Organisational structure and culture receptive to change, backing of senior managers, developing systems and skills for change , communication activities, employees' commitment to the vision, providing incentives and achieving co-alignment between important factors

Source: Adapted from Okumus (2003:971)

Table 5.1 shows that there are some similarities in terms of key factors essential to strategy implementation – an indication that several factors need to be considered while developing and implementing strategies. However, these frameworks have identified different factors and contradictory meanings attached to some of these factors. From these frameworks, 10 key implementation factors are identified, as indicated in Table 5.2 below.

Table 5.2 Common strategy implementation factors

	Common implementation factors identified from the frameworks
1.	Strategy development
2.	Environmental uncertainty
3.	Organisational structure
4.	Organisational culture
5.	Leadership
6.	Operational planning
7.	Resource allocation
8.	Communication
9.	People
10.	Control

Source: Own construction

The above factors are suggestions of key elements for consideration when implementing strategy, and should not be seen as exhaustive (Okumus 2003:875).

Some researchers have grouped implementation factors into a number of categories, such as:

- Context, process and outcomes (Bryson & Bromiley 1993)
- Planning and design (Hrebriniak & Joyce 1984)
- Realisers and enablers (Miller 1997)
- Content, context, process and outcomes (Okumus 2003)
- Context and process factors (Pettigrew 1992)
- Contextual, system and action levers (Schmelzer & Olsen 1994).

Four common groupings have emerged and hence the above factors can be grouped in terms of *strategic content* (refers to how and why strategy is developed), *strategic context* (external and internal factors such as environmental uncertainty and organisational structure, culture etc.), *operational processes* (e.g. operational planning, resource allocation, people, communication and control) and *outcomes* which include the results of the implementation process.

In the following section, seven strategy implementation frameworks are discussed to show the range and diversity of strategy implementation frameworks available.

5.2.1 Pennings' framework of strategy implementation

Penning (1998) proposes a diagnostic framework of strategy implementation and organisational change, and argues that this framework is a simple model for understanding the levers with which management can implement a strategy. These six levers of implementation are:

- Organisational structure
- Control and information systems
- Reward systems

- Selection and socialisation
- Power and politics
- Organisational culture.

By taking into account and adjusting these six factors, it is argued that management can implement a strategy successfully. The factors should support the implementation effort and not inhibit it. In addition, these levers enable an organisation to learn from its implementation efforts.

5.2.2 Hussey's framework of strategy implementation

Hussey (1996:325) identifies eight variables that should be examined when implementing a strategy. Like Peters and Waterman's 7's framework, Hussey builds on the work of Leavitt (1964) who suggested that organisations are multivariate systems and that all variables interact with other variables. These eight variables are:

- Tasks
- People
- Structure
- Decision processes
- Culture
- Information systems
- Control systems
- Reward systems.

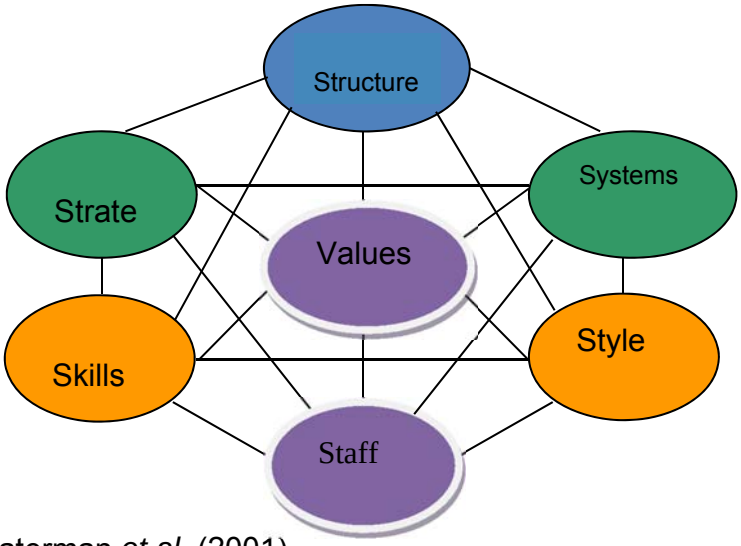
Each of these variables can potentially affect all other variables (Van der Maas 2008:39).

5.2.3 Waterman *et al's* framework for strategy implementation

One of the most cited models was proposed by Waterman *et al.* (2001) in the 1980s and was based on their research and consultancy work while working for McKinsey

Consulting. These authors argued that effective strategy implementation is essentially attending to the relationship between seven factors. The seven factors are: strategy, structure, systems, style, staff, skills and shared values. Waterman *et al*. (2001) summarised the 7's model referred to as "McKinsey 7's strategy model" that view an organisation in terms of various components. Essentially, any organisation can be described by these seven interrelated elements, as shown in Figure 5.1 below.

Figure 5.1 McKinsey 7's model



Source: Waterman *et al.* (2001)

These components do not work independently but in relationship with each other, and shared values are the interconnecting centre of McKinsey's model, as this comprises the central beliefs and attitudes (what the organisation stands for and believes in). However, the relationship between these factors was not discussed, or how they make strategy implemental components by assessing the internal capabilities, change management, strategy development and coordination during strategy implementation to enhance its success. The model also shows the complexity of managing an organisation. Table 5.3 indicates the meaning attached to these seven components.

Table 5.3 Meaning attached to components in the 7's model

Seven components	Description
Strategy	Plans for the allocation of an organisation's scarce resources, over time, to reach identified goals.
Structure	The way the organisation's units relate to each other: centralised, functional divisions (top-down); decentralised (the trend in larger organisations); matrix, network, holding, etc.
Systems	The procedures, processes and routines that characterise how important work is to be done: financial systems; hiring, promotion and performance appraisal systems; information systems.
Skills	Distinctive capabilities of personnel or of the organisation as a whole
Staff	Numbers and types of personnel within the organisation.
Style	Cultural style of the organisation and how key managers behave in achieving the organisation's goals.
Shared Value	The interconnecting centre of McKinsey's model is: shared values. What the organisation stands for and what it believes in.

Source: Waterman *et al*. (2001)

The 7's model shows a list of factors that need to be well managed to ensure successful strategy implementation. The top three factors (strategy, structure and systems) are what some authors refer to as "hard elements" while the bottom four (skills, staff, style, and shared values) are the "soft elements". During the 1980s, organisational studies were focusing on the "hard" elements especially the structure, and ignored the bottom "soft" elements. The current view is to focus on all these elements since they are all interdependent, and changes in one will have repercussions on the others, for example introduction of new systems will certainly affect skills, structure, style and staff and could also have an effect on the strategy. If one element is changed on its own, the other elements may well resist the change and try to maintain the status quo. Hence, the seven components of an organisation need to be aligned and reinforced in order for strategy implementation to be successful.

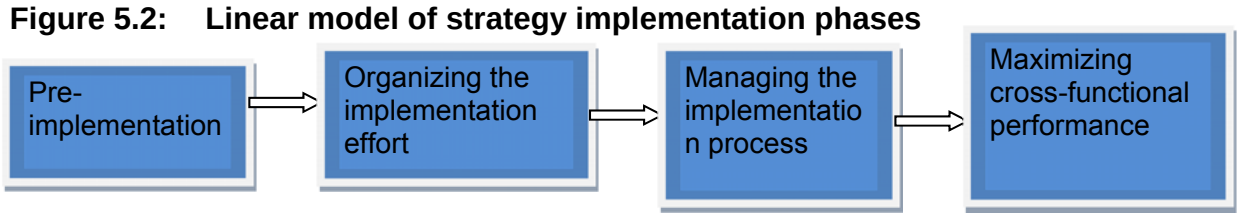
The McKinsey 7's framework only focused on the internal elements of the organisation and there was no discussion of the interaction of the organisation with its external

environment and changes to the organisation. In addition, besides aligning the elements to the organisational strategy, explanations on how managers would ensure successful implementation of the strategy were lacking. Moreover, the relationship between the organisational elements was not provided. Hence, while this model provides managers with an easy-to-follow guideline to implementation, it should not be used as the only method due to the weaknesses cited, especially its failure to relate strategy implementation success to external factors and other internal factors such as communication and availability of resources.

5.2.4 Noble's framework for strategy implementation

Emerging from a study of diverse manufacturing organisations, Noble (1999b:21) developed a general strategy implementation framework. The first stage is pre-implementation or strategy development which aims to emphasise the input into strategy formulation from a wide spectrum of organisational stakeholders. The second and third stages are organising and managing the deployment process. The fourth stage is maximising cross-functional performance. A key objective of the study was to find factors that would lead to cross-functional success (see Figure 5.2).

Figure 5.2: Linear model of strategy implementation phases



Source: Noble (1999b)

From this framework, Noble assumed that strategy implementation adopts a linear process, a fact that is disputed by several authors. For example, Okumus (2003:879) suggests that strategy implementation is too complex to be presented in a linear prescriptive framework. Noble (1999b:24) identified five managerial levers for these implementation phases. These are goals, organisational structure, leadership, communication and incentives. According to Noble (1999b:24), management of these

levers changes through the implementation phases although they are all important in every single phase. Considering these factors in combination with each major stage, provides useful heuristics to improve strategy implementation. These levers are shown in Table 5.4 below.

Table 5.4 Strategy implementation framework

Levers	Stages			
	Pre-implementation	**Organising the implementation effort**	**Managing the implementation process**	**Maximising cross-functional performance**
Goals	Ensure managers are aware of the strategic goals of the organisation	Introduce goals of the strategy including its fit with broader strategic vision	Maintain the flexibility to adapt goals based on environmental changes	Develop and focus on common goals to encourage cross-functional cohesiveness
Organisational structure	Ensue all the functional areas have the resources required to contribute to the implementation process	Establish a formal implementation unit and ensure its visibility throughout the organisation	Ensure equal representation by all affected functional areas	Temporarily suspend key team members' normal responsibilities to allow to focus on implementation effort
Leadership	Develop employees' knowledge and appreciation of multiple functional areas	Establish a "champion" who has both official cross-functional authority and general respect	Ensure that leaders show equal attention to all functional-level concerns	Balance visible and charismatic leadership with a maintenance of autonomy for implementation
Communication	Maintain regularly cross-functional communication to foster understanding	Discuss and resolve implementation details early in the process	Update the implementation team frequently on progress and changes in objectives	Communicate implementation progress across the entire organisation to foster buy-in
Incentives	Reward the development of cross functional skills	Develop time- and performance-incentives for implementation team and reduce traditional incentives	Adjust incentives, as strategy and environmental conditions change during implementation	Establish visible and consistent cross-functional rewards for successful implementation efforts

Source: Noble (1999b)

5.2.5 Kaplan and Norton's framework of strategy implementation

Kaplan and Norton (2001) found from survey data that control processes in organisations were directed at short-term performance and rarely evaluated progress on the long-term objectives. The balanced scorecard was developed with a mix of outcome measures to address this problem. The balanced scorecard aims to extend the scope of management information from financial measures to include non-financial aspects linked to the business strategy (Norreklit 2000; Kaplan & Norton 2001). The balanced scorecard is used to implement and obtain feedback about the strategy through a visual framework – a strategy map. According to Kaplan and Norton (2001), a strategy map enables an organisation to describe and illustrate its objectives and initiatives and targets the measures used to assess its performance and the linkages which are the foundation for the strategic direction. In addition, a balanced scorecard and strategy maps connect strategy implementation with the organisation's vision and strategic objectives, ensuring that a holistic view of the organisation is maintained during the implementation process.

A follow-up of organisations using the balanced scorecard and strategy mapping is important in assessing its application and influence on strategy implementation. There appear to be significant issues to be dealt with in the practical application of the balanced scorecard and strategy mapping. Bourne, Neely, Mills and Platt (2002:1280) point out that the majority of balanced scorecard implementation efforts fail. Richmond (2001) asserts that balanced scorecard maps do not address time delays and feedback loops, and advocates a systems dynamics approach. Otely (2003:255) indicates that a balanced scorecard neglects links with reward incentives. Okumus (2003:874) argues that the balanced scorecard model separates strategy implementation from strategy development, provides no new insights into strategy implementation, and does not emphasise cultural, political and resource allocation issues. Finally, Norreklit (2000:67) contends that balance scorecards are used more to fulfill performance measurement and strategic control functions of strategic management than as a guide to successful strategy implementation practices. Hence, balanced scorecard and strategy maps are

helpful in performance measurement but are limited in solving the various challenges related to strategy implementation.

5.2.6 Higgins's framework for strategy implementation

Higgins (2005) formulated the "8's framework" of strategy implementation, namely:

- Strategy and purposes
- Structure
- Resources
- Shared values
- Style
- Staff
- Systems and processes
- Strategic performance.

The "8's framework" of strategy execution is an approach that enables senior management to enact, monitor and assess the cross-functional execution of strategies. This framework is a revision of the original McKinsey 7s model. Higgins (2005) has deleted skills from the McKinsey framework and added resources in their place. In addition, strategic performance has been added in order to help focus the strategy execution process. Higgins (2005) advocates a good match of alignment among these factors to ensure successful strategy implementation.

5.2.7 Okumus's framework for strategy implementation

Okumus (2003) reviewed extensive literature on strategy implementation frameworks, noted their weaknesses and finally developed a framework which is credited for its comprehensiveness of factors that influence strategy implementation. Okumus (2003) noted the early frameworks (for example, Waterman *et al.* 2001; Hambrick & Cannella 1989; and Stonich 1982) simply listed and described implementation factors. Other groups in the 1990s and early 2000 suggested step-by-step sequential implementation

models (see for example Bergadaa 1999; Hacker *et al*. 2001; and Noble 1999b). Okumus (2003) notes that although categorising these factors into a step-by-step process makes the models more understandable for managers, the models are oversimplified and ignore the dynamics of interaction that occur between the stages depicted by the models. Another category is processual frameworks that emphasise the importance of the context and process, but fail to give details on the factors that are important, their roles and impact during strategy implementation (Dawson 1994; and Pettigrew & Whipp 1999).

After analysis of the frameworks cited above, Okumus (2003) proposed a conceptual framework which groups the implementation factors into four categories. The four categories are: content, context, operational process and outcome. The details of these four categories are presented in Table 5.5 below.

Table 5.5: Categories of strategy implementation factors

Four categories	Details of the factors
Strategic Content	Refers to why and how the strategy is initiated (development process). Key areas to be considered are : • New strategy to be consistent with the overall direction of the of the organisation • Aims of new strategy to clearly identified • Management of change • Active participation from all levels of the management
Strategic Context	This is further divided into external and internal. External context is concerned with environmental uncertainty and internal on factors such as organisational structure , culture and leadership
Operational process	Includes: operational planning, resources allocation, people, communication and control
Outcome	The intended and unintended results of the implementation process which can be tangible or intangible

Source: Adapted from Okumus (2003:875)

Apart from description of the various factors in these four categories, Okumus (2003) provided an explanation of the relationship of each factor with other elements and its

potential impact on the implementation process. In this framework, strategy implementation is the process that occurs within the strategic context and content, and is viewed as the strategic direction of the organisation needed to design new initiatives. Process factors are primarily utilised in the implementation process, and outcomes are seen to be expected or unexpected results of the initiated strategy. Okumus's (2003) framework has the potential to help managers and researchers when examining and evaluating the complex process of strategy implementation.

5.3 CONCLUSIONS ON THE FRAMEWORKS FOR STRATEGY IMPLEMENTATION

A review of the implementation frameworks for strategy implementation gives rise to the following observations:

- Strategy formulation is not included in the frameworks, with the exception of McKinsey's 7's framework. This is in line with the majority of the implementation literature that views strategy formulation and strategy implementation as two separate processes that follow each other. However, strategy formulation and implementation are interactive processes and should be viewed together. This calls for implementation frameworks that should enable managers to view strategy formulation and implementation factors together since they collectively influence the success of strategy implementation and ultimately the performance of the entire organisation.
- The frameworks can be considered logical and rational in nature, adopting a linear and prescriptive approach. Part of this approach is the emphasis on the "hard" factors of the implementation aspects such as the organisational structure, reward systems, control and information systems. The "soft factors" or human side of implementation is not given due attention by most of the factors, and this plays a key role in the success or failure of any strategy. Some of the factors to be considered are: employee motivation, behaviour change, coaching and counselling. In addition, little attention is paid to power and politics, while strategy implementation unavoidably raises questions of power in the organisation and brings change to

established positions. Therefore power and politics have a significant influence on strategy implementation.

- Apart from the framework developed by Okumus (2003), other frameworks only provide partial explanations and examples of how implementation factors interact with each other and influence other factors, but the exact nature of these interactions and how they help or prevent organisations from achieving coherence between strategy and key implementation factors is often neglected.
- The factors provided by thse frameworks as critical to strategy implementation and the implementation approaches are mainly top-down in nature, which is often a dominant view in strategy implementation. However, it is becoming apparent that issues such as employee commitment and involvement are important pillars of successful strategy implementation.
- The overriding assumption among a majority of these frameworks is that there must be coherence among these factors if the strategy implementation process is to be successful. For example, Thompson and Strickland (1999) comment that the stronger the fits, the better the execution. Stonich (1982) argues that effective implementation of strategy requires a constant effort to align the basic elements that drive the organisation, while Hrebiniak and Joyce (1984:17) state that “everything depends on upon everything else in strategy implementation”. Given the complex, dynamic nature of implementation situations, it may be difficult or even impossible to achieve the coherence between these implementation factors. It is essential to understand how strategies can be implemented without having a proper coherence between the implementation factors, which calls for further research into strategy implementation.
- These frameworks pay little attention to the external environment of the organisation, and focus more on the internal capabilities. Factors in the general environment and specific industry conditions from which the opportunities and threats emerge, should be given attention since the best strategy can be foiled by factors from this external environment.

- These frameworks are largely based on simple logical analysis supported by case studies or small-sample survey data. As such, they have limited empirical evidence and their context is usually narrowed to medium and large-sized businesses.
- These frameworks do not clearly discuss the extent to which these factors allow strategies to be successful and/or prevent strategies from being successful.

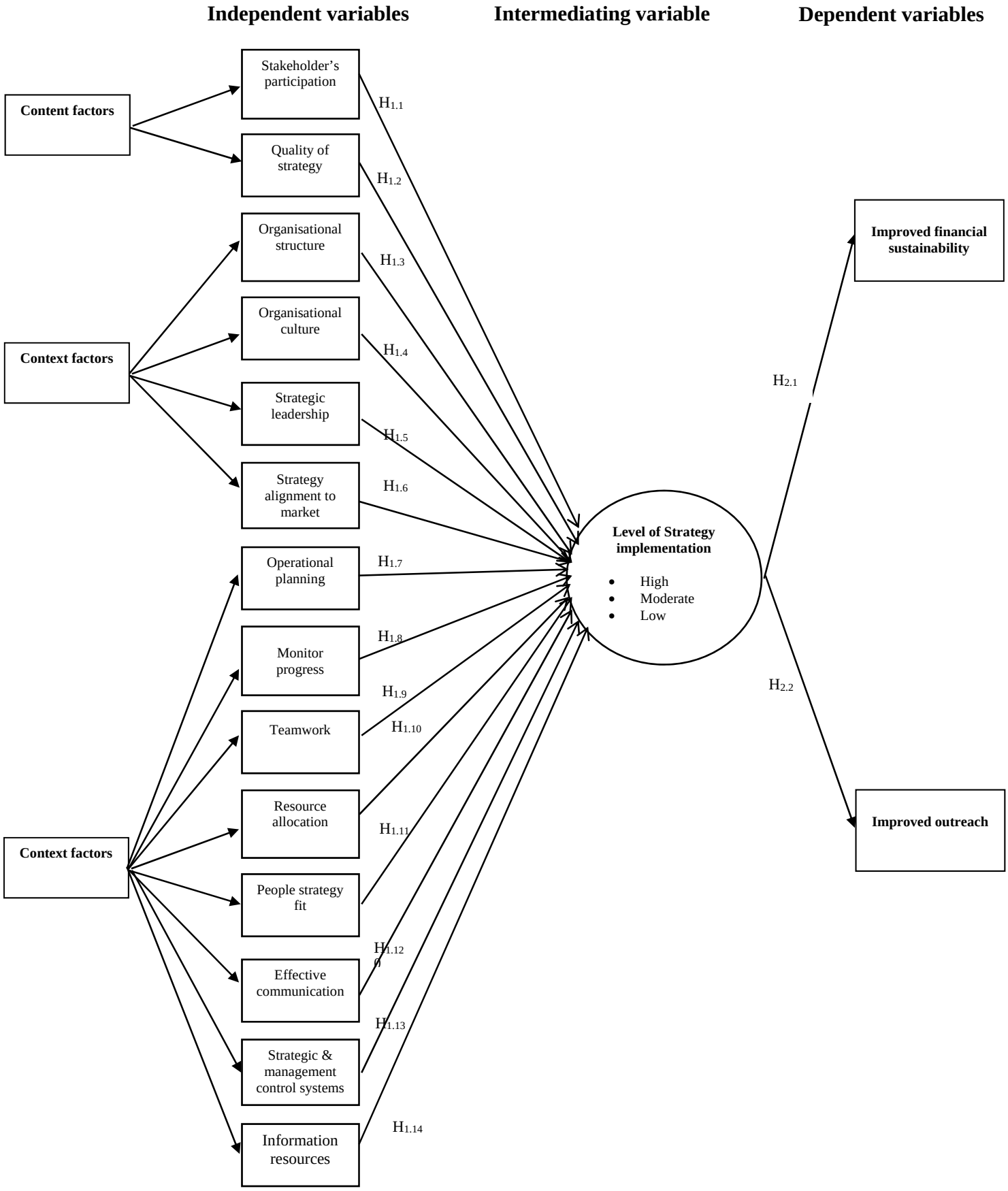
It appears that there is still no generally, accepted conceptual framework for strategy implementation which provides a clear demonstration of the need to focus attention on strategy implementation and generally accepted models for successful strategy implementation.

After an in-depth literature exploration on key success factors for successful strategy implementation and existing strategy implementation frameworks, the section below provides a hypothetical model of this study that comprises three categories of factors, namely: context, content and operational, that are critical to successful strategy implementation. The model has combined a number of factors and mainly used Okumus's (2003) approach in categorising them.

5.4 HYPOTHETICAL MODEL OF THE STUDY

The hypothetical model of this study comprises 14 factors cited by various researchers as critical to successful strategy implementation. These factors are further categorised into strategy content, context and operational process factors. The level of strategy implementation which can be high, low or medium, will have an effect on the financial sustainability of the organisation, its outreach (number of clients served by the organisation and geographical expansion) and competitiveness. The assumption is that if an organisation is aware and able to manage critical factors within the strategy content, strategy context and operational processes, it will experience a high level of strategy implementation, leading to improved financial sustainability, outreach of the organisation and competitiveness. The hypothetical model for this study is presented in Figure 5.2 below.

Figure 5.2 Hypothetical model of successful strategy implementation



5.5 VARIABLES OF THE HYPOTHETICAL MODEL

This study suggests that there is a low success rate of competitive strategy implementation in MFOs in Kenya owing to the failure to address key success factors necessary for effective strategy implementation. Previous researchers have identified various factors that are critical to successful strategy implementation. This study has combined a number of factors cited by various authors as critical to successful strategy implementation in organisations. These factors stem from strategy content, context and operational processes. Table 5.6 below highlights the three variables (strategy content, context and processes) and the corresponding factors essential for successful strategy implementation that are used in the conceptual model to be discussed in this section.

Table 5.6: Critical factors for successful strategy implementation

Broad categories of critical factors for successful strategy implementation	Specific examples/factors	Authors
Strategy content factors	• Stakeholder's involvement in strategy development • Quality of strategy in relation to: - Distinctiveness and focus - Time allocation - Strategies to counter competitor response - Business model	Hrebiniak (2006:15) Allio (2005:12) Miller (2002:18) Raps (2005:7) Porter (2004:25) Beer & Eisenstat (2000) Sterling (2003:27) Thompson *et al*. (2010:16)
Strategy context	- Alignment of strategy with market conditions - Strategy and structure fit - Strategy and culture fit - Strategic leadership	Alghambi (1998:324) Okumus (2003:882) Mintzberg (1994:27) Graham (2007:19) Cameron & Quinn (1999:42) Jeffrey (1998) Schaap (2006:13) Raps (2005:141)

Operational processes	• Operational planning • Monitoring of progress • Resources allocation • People-strategy fit • Effective communication • Use of support tools • Team work • Information resources	Raps (2005) Sterling (2003:34) Wernham (1995:632) Alexander (1999:96) Raps (2005:141) Bungay&Goold (1999:32) Ujwal (2009:3) Noble (1999a:27)

Source: Own construct

The assumption is that if an organisation is aware and able to manage critical factors within the strategy content, strategy context and operational processes, there will be a high level or extent of success in implementation, leading to improved performance of the organisation. These factors, based on previous research findings, are discussed below.

5.5.1 Strategy content factors

Strategy implementation failure could stem from the strategy formulation process and the quality of the strategy itself. It is clear that a poor or vague strategy can limit implementation efforts dramatically. Good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort (Hrebiniak 2006:17). Allio (2005:2) notes that good implementation naturally starts with good strategic input, as the soup is only as good as the ingredients. Processes undertaken during strategy formulation and the quality thereof influence the strategy implementation process. Strategy formulation requires strategic input, commitment and trust, especially from middle managers. The present study suggests that organisations must deal with factors stemming from strategy formulation to overcome the challenges of execution. The content factors that influence strategy implementation are outlined below.

(a) Stakeholders' involvement in strategy development processes

Stakeholders in organisations include employees, board members, shareholders, competitors, suppliers, customers, government, unions and the community. Participation of key stakeholders in strategy development ensures that there is ownership of a strategy and buy-in to the strategy. According to Sterling (2003), participation of senior and middle-level managers and staff with technical expertise in various areas in the strategy development processes pays off through buy-in to the strategy and creating ownership, resulting in a high success rate of implementation. Lack of appreciation/understanding of the strategy by stakeholders is a cause of strategy implementation failure (Miller 2002). Further, Raps (2005:141) observes that success of strategy implementation depends on the level of involvement of middle-level managers and commitment of top management, to persuade employees to support the strategy. Similarly, Harrington (2006:375) adds that a higher level of total organisational involvement during strategy formulation has positive effects on the level of implementation success, firm profits and overall firm success. Heracleous (2000:78) states that support and commitment to strategy implementation by the majority of employees and middle management will depend on their level of involvement during the strategy development phase.

Alghambi (2000:3221) advises managers to avoid a top-down management style and to increase involvement of employees during strategy formulation. Lorange (1998:18-29) maintains that middle-level managers should be involved in strategy development processes, because they are vital in communicating the strategy to lower levels and act as coaches, as well as building capacities of staff and giving guidance. Noble (1999a:132) sresses that the degree of involvement of everyone in strategy formulation is a predictor of implementation success. Kim and Mauborgne (2001:125) emphasise that the process of strategy formulation ultimately affects commitment, trust and social harmony as well as the outcome satisfaction of managers.

In light of the emphasis on greater involvement of stakeholders in strategy development processes, the present study will investigate the extent to which MFOs involve stakeholders in the processes of strategy development and their relationship to the level of strategy implementation. The following hypothesis is thus formulated:

$H_{1.1}$: There is a positive relationship between stakeholders' involvement in strategy formulation and the level of strategy implementation.

(b) Quality of the strategy

While strategy is expected to give an organisation a competitive edge, empirical studies have shown different results regarding the relationship between organisational strategy and performance. For example, Pearce and Robinson (2001) conclude that there is no relationship between strategy formulation and financial performance. However, some authors, such as Hewlett (1999) point out the benefits of having a formal organisational strategy as a means of improving performance. The argument in the present study is that the quality of a strategy has an impact on the implementation level and performance of the organisation. This view is supported by Alexander (2000:93) who maintains that a formulated strategy should involve a good idea or concept in order to promote successful implementation. Various aspects regarding the quality of a strategy are outlined in the section below.

- **Distinctiveness of strategy and focus**

According to Stalk and Lachenauer (2004:25), a strategy must facilitate an organisation in achieving sustainable competitive advantage through strategy implementation. This means strategies must distinguish an organisation from competition by making a unique and competitive offer to its customers. Porter (2004) observes that a good strategy should distinguish an organisation from others in ways that make a difference to customers. To design distinctive strategies, it is necessary to examine an organisation's

genuine strengths (particularly those that span multiple functions), examine the marketplace to understand what market positions exist or may be unoccupied, and then to focus the organisation's strategies on unoccupied strategic positions (Porter 1986). Some strategies fail because they leave the organisation undistinguished in the market and others may be pursuing the same market strategy or position. A strategy must be effective to enable an organisation to stand out by offering its customers something different and superior to that of competitors (Sterling 2003).

This study will attempt to investigate the distinctiveness of strategies developed by MFOs, their alignment to the organisation's overall direction, their unique positioning in the industry and how these three categories of factors affect the level of strategy implementation and overall organisational performance.

- **Timeliness of strategy**

Some strategies fail because other organisations beat a particular organisation to the market with a similar idea or strategy. Therefore strategies must be implemented on a timely basis. In addition, a good strategy must appropriately allocate time to activities and indicate when results are expected. Various authors have stated that organisations most often exceed the time allocated to implement activities and deliver results (Alghambi 1999:323; Beer & Eisenstat 2000; and Raps 2005:145). In addition to calculating the probable period allocated to activities, extra buffer time should be calculated to account for unexpected incidents that might occur at any time during strategy implementation. The present study will seek to investigate timeliness of implemented strategies,and the practice of allocating time to activities among MFOs in Kenya, as well as how this could affect organisational performance.

- **Competitors' response to a strategy**

A strategy should give an organisation a competitive edge to outperform others in an industry. Impementation of a strategy can be foiled by an effective response to it from a

key competitor. According to Sterling (2003), organisations must anticipate and analyse key competitors' reactions to the planned strategies during strategy implementation. This requires competitive intelligence and the ability to understand competitors' market positions, their relative competitive advantages and disadvantages, their historical behaviour towards competitive strategy, and the general disposition of their respective management teams. The present study suggests that well-planned strategies to counter competitors' responses improve the rate of strategy implementation and consequently organisational performance.

- **Business model**

An organisation's business model is management's story-line for how and why the organisation's product offerings and competitive approaches will generate a revenue stream (Strickland, Thompson & Gamble 2009). Kotelnikov (2009:293) explains that a business model describes how a business positions itself within the value-chain of its industry and how it intends to sustain itself through revenue generation. The components of a business model comprise: proposition; market; revenue generation and margins; position in the value network; and competitive strategy. Some strategies fail because they are poorly conceived and lack the potential of competitively positioning the organisation in the industry. The situation occurs due to inadequate analysis of the organisation's external and internal environment and assessing all possible strategies, and finally selecting the most appropriate strategy for the organisation (Sterling 2003:29).

Based on this reasoning, the following hypothesis is proposed:

$H_{1.2}$: ***There is a positive relationship between the quality of a formulated strategy and the level of strategy implementation.***

5.5.2 Strategy context factors

This section outlines both internal and external strategy context factors that influence the extent to which strategies are implemented.

(a) Organisational structure

Miller (2004:225) observes that inappropriate organisational structure is a cause of strategy failure. There is a need for a clear fit between structure and strategy (Aaltonen & Ikavaiko 2002:417; and Reed & Buckley 1988:68). Mintzberg (1994) proposes that organisations differ in terms of their structure, and that theory should move away from the “one best way” approach towards a contingency approach, in that structure should reflect a firm's situation and strategies. The structure of an organisation influences the flow of information and the context and nature of interpersonal interaction within it. Structure also channels collaboration, prescribes means of communication and co-ordination, as well as allocating power and responsibility (Miller 2000:359). According to Okumus (2003), "organisational structure" refers to the shape, division of labour, job duties and responsibilities, the distribution of power and decision-making procedures in the organisation. Some issues to be considered in aligning structure and strategy are the potential changes in duties, roles, decision-making and the reporting of relationships. Further, the ability of the organisational structure to facilitate the free flow of information, coordination and cooperation between different levels of management and functional areas should be assessed. Other areas for consideration include the potential impact of the new strategy on informal networks, politics and key shareholders and the attitude of powerful groups towards the new strategy.

According to Heide, Gronhaug and Johannessen (2002:217), factors relating to the organisational structure are one of the most important implementation barriers. Drazin and Howard (2001:33) and Noble (1999b:25) view proper strategy-structure alignment as an essential precursor to successful implementation of new business strategies. These authors point out that change in the competitive environment require adjustments

to the organisational structure. If an organisation lags in making this realignment, it may exhibit poor performance and be at a serious competitive disadvantage. Schaap (2006:22) also suggests that adjusting organisational structure according to strategy can ensure successful strategy implementation. Gupta (2002:478) indicates that structures that are more decentralised produce higher levels of strategic business units' effectiveness, regardless of the strategic context, while Olson, Slater and Hult (2005:49) state that strategy types have different requirements for an adequate organisational structure.

The present study suggests that alignment of structure to the strategy is a critical aspect to achieving high-level strategy implementation, leading to improved performance. The study will investigate the extent to which organisational structures in MFOs are aligned to strategy implementation and lead to improved performance. Accordingly, the following hypothesis is proposed:

$H_{1.3}$: ***There is a positive relationship between organisational structure and strategy fit and the level of strategy implementation.***

(b) Organisational culture

The hypothetical model of this study suggests that organisational culture is a key determinant of strategy implementation. Ahlstrand, Lampel and Mintzberg (1999) define organisational culture as shared beliefs and values that are reflected in traditions, habits and more tangible manifestations such as stories, symbols, even buildings and products. They add that culture is acquired through a process of socialisation, acquiring beliefs and values by hearing the stories, seeing the symbols, participating in the rituals, observing the examples people set, as well as by reading manuals and newsletters, listening to corporate communications, reward and punishment, and other aspects of the organisation. According to Graham (2007), corporate culture evolves from various factors such as top management practices, strong groups within the organisation, policies and practices, organisational structure, rewards, recognition and

promotion. It is clearly stated that organisational culture and specifically the extent to which it is aligned or not aligned with strategy, is the single most important factor in determining whether a strategy is successfully executed and performance goals are achieved (Lee & Yu 2004:40; and Marks 1999).

A close fit between the culture and the strategy will increase chances of strategy success. Therefore organisational culture should be assessed when a new strategy is formulated or fundamental changes such as mergers are introduced, because lack of congruence with strategy is often a cause of strategy failure (Graham 2007). Nicole (2005) agrees that in order for a strategy to receive sustained support, it should be aligned with an organisational culture supportive of its success. It therefore appears that there is a strong relationship between culture and performance. This study will assess the extent to which the cultures of MFOs in Kenya are aligned to strategy implementation. Based on this background, the following hypothesis is proposed:

$H_{1.4}$: There is a positive relationship between organisational culture and strategy fit and the level of strategy implementation.

(c) Strategic leadership

According to Raps (2005:142), it is a prerequisite for top managers to be committed to the strategic direction itself and to demonstrate the willingness to give energy and loyalty to the implementation process because this provides a positive signal for all employees in the organisation. Top executives should not lose any time before disseminating the strategy and persuading all employees to support its implementation. Several researchers have emphasised the effect of top management on strategy implementation, while pointing out the important figurehead role of top management in the process (Brauer & Schmidt 2006:13-22; and Schaap 2006:13-15). According to Okumus (2003:871), strategic leadership is the actual support and involvement of the CEO in the strategic initiative. Leadership is crucial in using process factors and in

manipulating the internal context receptive to change. Effective execution involves managers across all hierarchical levels. The execution of tasks, jobs and responsibilities varies across levels, but they are all interdependent and important (Hrebiniak 2008). This study will investigate the extent to which top executives are involved in strategy development and support its implementation. The following hypothesis is formulated:

$H_{1.5}$: ***There is a positive relationship between strategic leadership and the level of strategy implementation.***

(d) Alignment of strategy with market conditions

Factors emanating from the external environment lead to failure of strategy implementation if they are not well manipulated (Alghambi 1998: 323). Hence, Rainer (2003:67) suggests that strategy formulation and implementation should be continuous and be undertaken simultaneously due to the turbulence in the external environment. According to Sterling (2003), strategies often fail because the market conditions they were intended to exploit change before the strategy takes hold. Organisational leaders are advised to identify which market conditions have the greatest influence on strategy success, to ensure that they respond appropriately if this does not take place. They need to identify market factors that are unknown, monitor them and prepare for contingencies and most importantly, be prepared to change the strategy or implementation tactics as the external environment changes. It is suggested that failure to recognise and react to the changes is what significantly erodes organisations' performance, and not the change itself. Changes in the environment will require a new strategy or a revision of the strategy. The new strategy should be appropriate to market conditions, trends and developments in the external environment until the implementation process is completed (Okumus 2003:882). The present study will investigate how MFOs ensure that the strategies deployed are relevant to the changing environment, in order to ensure successful implementation. The following hypothesis is proposed:

$H_{1.6}$: There is a positive relationship between alignment of strategy to market conditions and the level of strategy implementation.

5.5.3 Operational process factors

This section focuses on operational factors that are critical to ensure strategic plans are successfully implemented.

(a) Operational planning

Key tasks not well defined in a detailed manner leading to vagueness have been cited as a leading cause of strategy implementation failure (Alghambi 1998:323; Corboy & Corrbui 1999; and Raps 2005:142). Action planning and budgeting are among the oldest management tools but they are still effective for ensuring that implementation occurs and that tactics align with strategy. Action planning involves clear allocation of tasks and expected results within a given timeframe for individuals and departments. If tasks are not well allocated to individuals and departments, this may lead to power struggles and conflicts (Raps 2005:142). According to Faull (2005:46) and Okumus (2003), action plans need to be written within a given timeframe and with clear targets to be achieved, including the budget required for resources. Departmental plans must be cascaded down to individuals to enhance accountability and to deliver results. Action plans must also be negotiated and agreed upon either at departmental or individual level. This study will investigate the impact of operational planning through action planning and budgeting within microfinance organisations, since they have an impact on the level of strategy implementation and performance. It is thus proposed that:

$H_{1.7}$: There is a positive relationship between operational planning and the level of strategy implementation.

(b) Monitoring and review of progress

Effective implementation requires continuous monitoring of the progress towards action plan implementation, also of competitive environment, customers' satisfaction, and the financial returns generated by the strategy. Monitoring is meaningless if it is not accompanied by accountability and change when required. Departments and individuals must be given clear performance targets (Sterling 2003). Organisations with clear monitoring systems of assessing performance of individual employees and departments according to plans are more successful in strategy implementation than those without effective systems of monitoring progress (Chimhanzi & Morgan 2005:787). Formal review of progress will increase the probability of reaching the goals, since the organisation is able to look at the gaps between measurement of current conditions and targets (Terry, 2011). Key performance indicators must be included in the design of a scorecard. In addition, quantitative reports based on data and narrative reports on matters such as threats, opportunities, events, and audits assist in reviewing organisational performance (Janssen 2001). This study will investigate progressive monitoring and review mechanisms used by MFOs to ensure that planned strategies are implemented, and appropriate actions are taken when warranted. Based on these suggestions, it is proposed that:

$H_{1.8}$: There is a positive relationship between monitoring of progress of strategy implementation and the level of strategy implementation.

(c) Teamwork

Teamwork is the ability to work together towards a common vision that directs individual accomplishments towards organisational objectives, and is the fuel that allows common people to attain uncommon results (Carnegie 2009). Teamwork can be defined as an activity or a set of inter-related activities carried out by more than one person in order to achieve a common objective (Ujwal 2009:3). From these definitions, it is clear that

teamwork involves people in an organisation working together towards realisation of organisational objectives. According to Noble (1999b:27, teamwork plays an important role in the process of strategy implementation. Organisations are required to deploy various methods to build cohesive and high-performing teams (Dyson 2005:370). Chimhanzi (2004:73-76) suggests that cross-departmental working relationships have a key role to play in successful implementation of strategies, and that effectiveness is affected negatively by conflicts in the workplace. This study will investigate the extent to which employees in the organisation work as a team, including inter-departmental relationships and the effect of teamwork on strategy implementation and organisational performance. The following hypothesis will be investigated:

$H_{1.9}$: There is a positive relationship between teamwork and the level of strategy implementation.

(d) Resource allocation

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

$H_{1.10}$: There is a positive relationship between allocation of resources for a strategy and the level of strategy implementation.

(e) People–strategy fit

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

Such decisions may include recruitment of new staff with the skills and knowledge needed by staff at different levels, and design incentive systems related to strategy implementation. Viseras *et al*. (2005) have grouped 36 key success factors into three research categories – people, organisation and systems – in the manufacturing environment. Their intriguing findings indicate that strategy implementation success depends crucially on the people side of project management, and less on organisation and systems-related factors. This study will assess the extent to which MFOs align

strategy requirements with employee capacities, and the impact of this on strategy implementation and performance of the organisation. It is thus proposed that:

$H_{1.11}$: There is a positive relationship between people-strategy fit and the level of strategy implementation.

(f) Effective communication

Most of the contributors to strategy implementation have identified ineffective communication as a major cause of poor strategy implementation. Raps (2005:141) states that communication is what implementation is all about, because change must be effectively communicated. Peng and Litteljohn (2001:365) add that communication barriers are reported more frequently than any other type of barrier to strategy implementation. The view is supported by Heide *et al*. (2002:260) and Rapert, Garretson and Velliquette (2002:303) that communication is a common barrier to strategy implementation, and plays an important role in the implementation process. In spite of the critical role of communication in strategy implementation, Forman and Argenti (2005:245) note that scholars in strategic management have given little attention to the links between communication and strategy. Corporate communication has always focused on the relationship of the organisation and its external stakeholders. These authors suggest that when vertical communication is frequent, strategic consensus (shared understanding about strategic priorities) is enhanced, and an organisation's performance improves. Schaap (2006:14) supports this view that frequent communication up and down in the organisation enhances strategic consensus through fostering shared attitudes and values. However, Schaap (2006:15) has shown that over 38% of senior-level leaders do not communicate the organisation's direction and business strategy to all subordinates. Forman and Argenti (2005:246) suggest that the corporate communication department should purposefully facilitate strategy implementation through communication, and get reactions from key constituencies on the strategy of the organisation. Clearly, alignment between the corporate

communication function and the strategic implementation process is fundamental to successful strategy implementation.

Many failed strategies result from the lack of a buy-in, understanding, or poor communication, hence the need for continuing and persistent communication during strategy formulation and implementation. Despite the fact that communication is a key success factor during strategy formulation and implementation, it is often dismissed (Miniace & Falter 1998:26). It is important to communicate information about organisational developments to all levels in a timely fashion. Communication at all levels should be continuous, and the progress of strategy implementation should be communicated throughout the organisation and on a timely basis (Okumus 2003:328). To improve communication, organisations should develop mechanisms for sending and receiving information and giving feedback. Raps (2005:141) recommends organisations to develop integrated communication plans that will be an effective vehicle for focusing employees' attention on the value of the strategies to be implemented.

According to Jake and Jack (2003:45), the best strategic plans are not likely to be successful if they are not effectively communicated to those who must implement them, namely the employees. Organisations must formulate a communication strategy that should spell out the vision, goal, objective, and tactical strategies, and incorporate a feedback loop to measure results against these targets. Further, appropriate channels of communication need to be identified, and communication messages should be packaged effectively. This study will investigate the availability of communication plans/processes in organisations and their effect on strategy implementation and organisational performance. The study thus proposes that:

$H_{1.12}$: There is a positive relationship between effective communication and the level of strategy implementation.

(g) Strategic and management control systems

Strategic control systems ensure that the immense effort put into preparing detailed strategic plans is translated into action, by focusing on short-term targets that deliver long-term goals (Bungay & Goold 1999:31). Strategic control systems are essentially required to provide a balance between long-term organisational goals and short-term operational demands. Control systems need to incorporate feedback and opportunities to devise and revise the strategies as well as to specify measures of these objectives (Travakoli & Perks 2001:297). Successful strategy implementation is therefore dependent on effective strategic as well as management control systems. An organisation's strategy must be translated into short-term operating objectives in order to execute the strategy. To achieve strategic objectives, an organisation must develop *short-term measurable objectives* that relate logically to the strategy, and work out how the organisation plans to compete with others. Key issues, elements and needs of the strategy must be translated into objectives, action plans, and scorecards, and this translation is an integral and vital part of the execution process. Performance appraisal and measurement of strategic progress cannot function without the existence of these *critical metrics or measurable performance criteria (*Hrebiniak 2008:12). According to Atkinson (2006:23-24), several management frameworks have been developed to assist in managing a wide range of organisational activities, such as ISO9000, Six Sigma, and quality models which have emerged from the TQM movement.

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

learning/growth. It is also referred to as the cornerstone of a new strategic management system positively linking organisational long-term strategic intentions with short-term operational actions. This study will investigate the use of strategic and management control systems which are effective in linking long-term strategic goals with short-term operational objectives to ensure effective strategy implementation and improved organisational performance. The following hypothesis is proposed:

$H_{1.13}$: There is a positive relationship between the use of strategic and management control systems and the level of strategy implementation.

(h) Information systems

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

$H_{1.14}$: There is a positive relationship between use of information resources and the level of strategy implementation.

5.5.4 Outcome factors

This study suggests that microfinance organisations that achieve a high rate of strategy implementation tend to experience substantial incremental performance benefits over those that are stuck in the process (Acquaah & Masoud 2008:346). MFOs lend to low-income individuals operating micro and small enterprises that are most often not served by the mainstream commercial banks. There are different arguments concerning how to evaluate the performance of MFOs. Meyer and Zeller (2002) developed the "critical micro-finance triangle" to assess performance. It includes outreach to the poor, financial sustainability and welfare impact. At the centre of the triangle are innovations in technology, policies, organisation and management that affect organisational performance. Outside the triangle is the external environment in which MFOs operate that also affects performance and includes human and social capital of the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Improvements in the environment make it easier for MFOs to reach these objectives (Meyer & Zeller 2002). The present study will assess the performance of MFOs influenced by the level of strategy implementation in relation to financial sustainability and outreach to micro, small, and medium enterprises.

(a) Financial sustainability

The key performance indicator of an MFO is its financial sustainability. It is noted that financial sustainability is one of the areas that need to be looked at when assessing the performance of MFOs. Meyer and Zeller (2002) point out that the poor need to have access to financial services on a long-term basis rather than just a one-time financial support. According to Navajas (2000:335), short-term loans would worsen the welfare of the poor, hence organisations providing financial services to the poor need to be financially sustainable. Meyer and Zeller (2002) explain that financial difficulties of MFOs arise due to a low repayment rate or the non-materialisation of funds promised by donors or governments. There are two types of financial sustainability that are used to assess performance of MFOs – *operational self-sustainability* and *financial self-sustainability*. During operational self-sustainability, the operating income is sufficient to cover operational costs like salaries, supplies, loan losses, and other administrative

costs. Financial self-sustainability takes place when MFOs can also cover the costs of funds and other forms of subsidies received valued at market prices. This is a high value measure of performance as it indicates the capability of the organisation to grow its own funds or sustain borrowing from the commercial market.

According to Christen (2000), loan repayment as measured by default rate is an important indicator for measuring financial sustainability of MFOs, since a low default rate could help to realise future lending. Kareta (2002) explains that a high default rate is caused by factors such as: improper client selection, ineffective repayment enforcement mechanism, absence of group pressure or collateral, negligence of clients, sickness of borrower, and bankruptcy in business of clients, which endanger the financial sustainability of an organisation. Another factor for assessing financial sustainability of MFOs is the profitability level without compromising financial services to the poor. As MFOs seek funds from the public market or private investors, the need to operate profitably and declare dividends to shareholders is greater than ever before.

This study will assess whether the financial sustainability of MFOs critical to their growth is related to the level of strategy implementation. Thus it is proposed that:

$H_{2.1}$: There is a positive relationship between the level of strategy implementation and financial sustainability of microfinance organisations.

(b) Outreach to the poor and SMEs

Outreach at a glance means the number of clients served. However, Meyer and Zeller (2002) note that outreach is a multidimensional concept. In order to measure outreach I is necessary to look at different dimensions. According to Navajas (2000:335-337), there are six aspects to measuring outreach – depth, worth of users, cost to users, breadth, length and scope. The meanings attached to each measurement are indicated in Table 5.7.

Table 5.7: Outreach measurements

Measurements of outreach	Description
Depth of outreach	The value the society attaches to the net gain from the use of microcredit by a given borrower
Worthy of outreach	How much the borrower is willing to pay for the loan
Cost of outreach	Cost of a loan to a borrower
Breadth of outreach	Number of users
Length of outreach	Timeframe in which a micro-finance organisation produces loans
Scope of outreach	Number of financial products offered by a micro-finance organisation

Source: Adapted from Navajas (2000)

According to Meyer and Zeller (2002), outreach has the following meanings:

- The number of persons served by MFOs who were previously denied access to formal financial services. These persons will usually be poor, because they cannot provide the collateral required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on commercial banks because of the small size of their financial activities and transactions. Women often face greater problems than men in accessing financial services; hence, the number of women served is an important criterion for measuring outreach.
- Depth of outreach which evaluates how well the MFOs reach the poor and improve their lives.
- The variety of financial services provided, since it appears that the welfare of the poor will be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to the loans that are the predominant concern of policy makers.

In assessing the outreach of MFOs, this study will focus on two variables, namely the number of clients served and the variety of financial service products provided by MFOs to the poor and to entrepreneurs operating small and micro enterprises. Based on the above reasoning, the following is proposed:

$H_{2.2}$: ***There is a positive relationship between level of strategy implementation and outreach of microfinance organisations.***

5.5.5 Operationalisation of level of strategy implementation

The level of strategy implementation will be assessed in two ways. One approach is to assess whether some necessary conditions for successful strategy implementation are in place. These are referred to as key success factors for effective strategy implementation, and have been highlighted in Chapter 4. The assumption is that when these conditions are in place, the level of strategy implementation could be regarded as high, and if they are absent, implementation level will be low. The second approach to assess the level or extent of strategy implementation is by using the perceptions of managers on whether the level of implementation is low, moderate or high, and these percentages have been derived using results from the literature review, where various authors assessed the percentages of strategies being implemented in organisations.

5.5.5.1 Level of strategy implementation based on key success factors

From the literature review, various conditions must be in place to ensure a high level of success in strategy implementation. Although this section may not exhaust all these factors, those analysed in this section are regularly cited by most authors. The study has assessed the presence of these conditions in MFOs by relying on management perceptions. As Cocks (2010:3) explains, strategy implementation is an extremely broad and complex issue and there are important drivers required for effective strategy implementation. This section has attempted to highlight some of these drivers needed, but the list may not be exhaustive.

(a) Strategic plan is of high quality

According to Terry (2011:1), strategy implementation is the most difficult part of the strategic planning process as it involves achieving the objectives set out while remaining alert and flexible to new opportunities as they unfold. For successful implementation, the strategic plan must be robust as well as realistically and solidly grounded in the underlying economics of the organisation's markets. Epper *et al*. (2008:11) contend that the strategy must be clear, with a good idea or concept, and must involve top and middle-level managers during its formulation. Hrebiniak (2006:24) also insists that good execution cannot overcome the shortcomings of a bad strategy or a poor strategic planning effort. Allio (2005:2) further notes that good implementation naturally starts with good strategic input. From literature, it is clear that successful strategy implementation must start with a good strategy. This study will assess the quality of strategies, based on the perceptions of managers during the survey.

(b) Internal rewards and control systems

According to Hrebiniak (2008:1), creation of strategy, objectives, structure, accountabilities and coordinating mechanisms are not sufficient to ensure that people will embrace the goals of the organisation. Some method of obtaining individual and organisational goal congruence is required. Strategy implementation will suffer if people are rewarded for doing the wrong things. Feedback on performance is needed so that the organisation can evaluate whether the right things are indeed being accomplished during the strategy implementation process. What is required for successful strategy implementation is the careful development of incentives and control measures. Incentives motivate or guide performance and support the key aspects of the strategy implementation model. Controls, on the other hand, provide timely and valid feedback about organisational performance so that change and adaptation become a routine part of the implementation effort. Controls allow for the revision of implementation related to factors if desired goals are not being met. Cees and Marjorie (2008:4) state that internal rewards and control systems determine the degree to which employees attach importance to strategic objectives and behave in accordance with them. Terry (2011:1)

indicates that organisations must establish creative ways to motivate people and reward them for focusing on the strategy and vision. The author adds that organisations must establish some positive or negative consequences for achieving or not achieving the stated objectives. Thompson *et al*. (2006) support the need to tie rewards and incentives directly to the achievement of performance objectives and good strategy execution to encourage employees to stay focused. The study will assess the presence of incentives and controls that are tied to strategy implementation in MFOs.

(c) Strategic leadership

The need for top management to provide leadership during strategy formulation and implementation has been hailed by several authors. Bossidy and Charan (2002:5) state leadership skills are required to enable leaders to stay in touch with the business but avoid becoming micro-managers. These leadership elements include knowledge of the people, setting clear goals, follow-up, rewards for achievers, and expanding people's capabilities. Roberts (2007:2) adds that at the root of good strategy implementation is leadership, not only at the top but across all functions in the organisation, and Cees *et al*. (2008:5) point out that successful strategy implementation in organisations is influenced by several factors controlled by managers. Ian and Gavin (2001) indicates that leaders must provide a strategic vision for the organisation and suggest how it should be achieved within a given time. Cocks (2010:5) agrees that focused leadership is required to achieve success in strategy implementation. Elements of focused leadership are given as the following: simplify the content of strategy; motivate people by being accessible; hold employees accountable for results; create leaders across the functions, and develop leaders from within. According to Chapman (2004:1), leadership is the common thread which runs through the entire process of translating strategy into results, and is the key to engaging the hearts and minds of people. Further, Thompson *et al*. (2006) comment that internal leadership is needed to drive implementation forward and keep emphasising that the way the strategy is executed is vital and requires good leadership. This study will assess the quality of strategic leadership provided by those at the top by seeking the perceptions of these managers.

(d) Communication

According to Terry (2011:1), one of the common mistakes in strategy implementation is failure to communicate strategy to front-line employees who are therefore working in the dark. He also comments on the use of confusing terminology and language. Hebrink (2008:1) cites the need for continuous communication at all levels in the organisation during the strategy implementation process. This view is supported by Edwards (2009:1) pointing out that communication across the entire organisation improves strategy implementation. Further De Flander (2009:1), indicates the need to simplify the strategy so that it is easy to remember and communicate. According to Cees *et al*. (2008:5), the amount of information and the manner in which it is communicated affect the degree of strategic consensus in the organisation and the overall success of strategy implementation. Ian and Gavin (2001:5) states that enhanced strategic communication and feedback tools are essential to allow efficient communication and cascading of the strategy across the entire organisation. Raffoni (2008) indicates that communicating in clear and concise ways throughout the organisation and to all stakeholders is imperative for successful strategy implementation. Epper *et al*.(2008:11) emphasise the need for effective communication across the organisation that should include the reason behind the new strategy, new responsibilities, tasks, duties that require to be performed by the affected employees, and easy access to management through an open and supportive communication climate. This study will assess the presence of effective communication channels in MFOs that is critical in improving strategy implementation.

(e) Use of robust and visible management systems

According to Cocks (2010:6), robust and visible management systems are prerequisites for effective execution of strategy. They include operating systems, information, decision-making and reward systems. Operating systems represent the heart of the organisation's ability to implement its strategy since if core systems and processes are not capable of producing and delivering the required products and services, the

organisation will fail to deliver value to its customers. Hence, high-performing organisations strive for close alignment of systems to achieve consistency, operational efficiency and commonality of purpose. Cocks (2010:6) suggests the use communication channels that are highly visible such as the use of scorecards, dashboards, flowcharts and the tools for problem-solving and project management. The goal of visible management is to balance detail with relevance, then to balance resources and accountability, and to measure actual progress and performance. Other tools that can be used include action plans, budgets, Gant charts and network analysis to identify critical paths, dashboards, and flowcharts. This study will assess the use of visible management systems in the MFOs through the perceptions of the managers.

(f) Cross-functional leadership

Hrebiniak (2008:1) points out the need to integrate all the units in the organisation's structure to achieve successful strategy implementation. The author indicates the need to create leaders across units to achieve effective coordination. Terry (2011:2) stresses that creating strategic thinking leaders across all the functions is imperative for successful strategy implementation, and that top management should spend time coaching functional unit managers. According to Cees *et al*. (2008:8), formal cross-functional structures are essential to enable cooperation among the different departments. These departments require effective leaders who can lead teams to implement the strategy and foster cooperation across the units. Finally, Epper *et al.* (2008:11) emphasises the need for cross-functional unit structures, processes and cross-working relationships to achieve cooperation and coordination in the entire organisation. These units should be led by effective people who are frontline leaders in facilitating the implementation of strategy. This study will assess the extent to which MFOs have effective functional leaders across the organisations as this is likely to lead to success in implementing strategies.

(g) Strategic plan performance review

Several authors have pointed out the need to review implementation of the strategic plan to enable organisations addressing emerging barriers to implementation. De Flander (2009:1) indicates the need to evaluate performance regularly to address issues likely to derail implementation. Performance review is also a basis of implementing incentive and reward systems to those meeting set targets. Michelle (2010:2) points out that performance reviews are essential to identify barriers to implementation and to develop strategies to overcome them. David (2010:5) also indicates that performance review enables organisations to have an immediate response to performance gaps and implementation of courses of corrections. Further, Terry (2011:1) indicates that organisations must develop the right measures for assessing performance, since what cannot be measured cannot be managed. The review keeps the plan reloaded and re-energised, and the organisation is able to distinguish those individuals who are getting things done and those who are not. Further, Hebriank (2008:1) indicates the need to assess performance and reward the right things and people that contribute to the achievement of performance targets. Hence, identification of right measures and regular review of the strategy is critical to its implementation. This study will assess the extent to which MFOs in Kenya undertake regular strategy reviews.

(h) Managing change

Several authors have pointed out that the success of strategy implementation depends on an organisation's ability to manage change and create an environment conducive to its implementation. According to Hrebiniak (2008:1), making the necessary changes in the process of execution and overcoming resistance to them is the road to strategic success. The author points out that this step requires attention to details, a focus on objectives, measurement of performance, and a strong commitment to the execution task. Making changes is often difficult, but successful execution depends on it. Further, Bossidy and Charan (2002:5) assert that successful strategy implementation requires

organisational change, where cultural change is linked to outcomes, for example linking reward systems to performance. There is a need for the leaders to manage change for successful strategy implementation and to deal with resistance to change. This point is emphasised by Roberts (2007:2) who contends that organisations must create a culture that supports the strategy, since its absence could lead to strategy failure. Further, Epper *et al.* (2008:11) point out that leaders must create an organisational culture and work climate conducive to successful strategy implementation. David (2010) agrees that adaptation of the strategy to the ever-changing environment is critical to its success. Ian and Gavin (2001) contend that changes to align strategy with existing processes and corporate behaviours are critical to its implementation success. This study will assess the extent to which MFOs focus on making necessary changes to ensure success in strategy implementation.

(i) Strategy management office or team

Some authors have cited the need to have a team or a strategy management office that is the link between strategy formulation and implementation. Terry (2011:1) indicates the need for organisations to create a team of champions from various functional units to lead strategy implementation, to review and to address barriers derailing its implementation. Chapman (2004:1) also points out that because of the complexity of implementing a strategy, an office to manage and review its implementation is very helpful. Kaplan and Norton (2007:4) support the need for an office for strategy management to support organisations and to link long-term strategic goals and tactical objectives, using the balanced scorecard. Bradley, Bryan and Smit (2012:1) highlight the need for organisations to form a team of top managers to guide strategy formulation and implementation. According to Kaplan and Norton (2005:3), most organisations fail to achieve profitable growth despite ambitious plans, because of the gaps between intended and actual performance. There is an alarming gap between the parts of the organisation that formulate corporate strategy functions and processes, and the people required to execute them. The creation of an office of strategy management that is capable of closing the gap between strategy formulation and implementation is

therefore a necessity. The role of this office is to connect strategic planning with those units and individuals required to implement strategy, such as establishing budgets, communicating strategy to the workforce, and designing compensation systems that reward strategic performance. The payoff for establishing the office is a corporate strategy that delivers on its promises. This will assess the extent to which MFOs have created either an office of strategy management or teams to bridge the gap between formulation and implementation.

(j) Operational planning

Several authors have mentioned the need to breakdown long-term strategic goals into short-term goals and tasks referred to as operational plans. Raffoni (2008) indicates the need to breakdown complexity into digestible tasks and activities that can be well understood and implemented. This view is supported by Edwards (2009) and Scott (2006:3) who emphasise the need to prepare action plans that constitute tactical and short-term goals at lower levels, to ensure that the strategic plan is implemented. Further, Chapman (2004:1) states that turning strategy into action entails a phased approach of identifying performance factors with strategic initiatives and projects designed to develop and optimise departmental and individual activities. Terry (2011:1) agrees that strategic long-term goals become a central part of the business by guiding development of the operational plans, and that operational plans aligned to the strategy ensure that the daily activities contribute to the realisation of the strategic goal targets. Hrebiniak (2006:22) considers that operational plans ensure that implementation is at the centre of operations. Terry (2011:1) points out that failure to develop these operational plans aligned to the strategy leads to managers losing sight of the strategic plan, as they are involved with day-to-day operating problems. Michelle (2010:2) cautions managers to resolve conflicting priorities or hidden agendas that affect implementation of operational plans aligned to the strategy. This study will assess the extent to which operational plans in MFOs are developed and used to guide implementation.

(k) Clear responsibility and accountability

According to Hebriank (2008:1), managers cannot create coordination mechanisms or integrate strategic and short-term operating objectives if job responsibilities and accountability are unclear. Clarifying responsibility and accountability is vital to making strategy work. Job-related responsibilities are not always clear and often authority is ambiguous. Responsibility and accountability are often blurred when people from different divisions, functions, or hierarchical levels come together to solve a problem. To execute strategy, responsibility and accountability must be clear. Use of a responsibility matrix or similar tool can help to define key execution tasks or activities and the people responsible for them. Without this clarification of roles and responsibilities for critical tasks, decisions and outcomes, making strategy work is difficult at best. In addition, De Flander, (2009:1) considers that individual and organisational performance must be linked by ensuring there is clarity of individual tasks, how results will be measured and rewarded. Michelle (2010:2) argues that departments and individual staff must be made accountable to deliver results on tasks assigned. This study will assess the extent to which responsibilities and accountability to deliver results are clear in MFOs.

(l) Use of frameworks and models

Several authors have argued that strategy implementation suffers from a lack of implementation models capable of helping managers navigate through the process. According to Hrebiniak (2008:1), managers need and benefit from a logical model to guide execution decisions and actions. Without guidance using an execution model, individuals do the things they think are important, often resulting in uncoordinated, divergent, even conflicting decisions and actions. The use of a logical approach is proposed, using a model without which execution suffers or fails because managers do not know what steps to take and when to take them. Having a model or roadmap positively affects execution success; not having one leads to execution failure and frustration. Ian and Gavin (2001) advocate the use of models and tools to support managers in implementing the strategy, and recommend the use of the balanced

scorecard. Further (Aaltonen & Ikavaiko 2002: 415) agree that strategy implementation models are essential in supporting managers during the execution process, and point out that the lack of them has largely contributed to implementation failure. Kaplan (2007:212) states that organisations suffer persistent failure in implementing strategy because of a lack of supportive frameworks. According to De Flander (2009:7), one of the causes of strategy implementation failure is the fragmented views from departments owing to the absence of a coherent implementation model. From the foregoing, models to support strategy implementation are essential, and their use should lead to successful strategy implementation. This study will assess the extent to which MFOs use models and tools such as the balanced scorecard to support implementation. The assumption is that implementation level will be high in MFOs using these tools or frameworks.

(m) Stakeholder's buy-in

Several authors have mentioned the need to establish buy-in of key stakeholders to achieve success in strategy implementation, and that the lack of it leads to implementation failure. For example, Epper *et al*. (2008:11) cite the need to achieve consensus on the organisational strategy for both internal and external stakeholders. Terry (2011:2) maintains that employees need to have a buy-in so that they can act and think strategically, and adds that the strategic plan should be shared with other stakeholders such as investors, customers and alliance partners. Cees *et al*. (2007:8) are of the opinion that the degree to which senior managers support a strategy is related to the degree the employees accept the strategy, and this reflects their performance in implementing the strategy. Wheelen and Hunger (2006) point out the need to involve everyone across the organisation in creating a buy-in to the strategy, Edwards (2009) indicates the need for leaders to generate enthusiasm and buy-in at all levels to achieve success in strategy implementation. This study will assess the extent to which there is a buy-in of the strategy by the stakeholders in MFOs.

(n) Alignment of people with the strategy

The need to engage the right number of staff with required competencies and skills to implement the strategy has been cited by several authors. For example, Bossidy and Charan (2002:5) indicate the need to put the right people in the right places to ensure that the organisation maximises its human capital as a critical factor to strategy implementation success. Epper *et al.* (2008:11) emphasise the need for organisations to check the quality of people involved in implementation (skills, attitudes, capabilities, experiences and other characteristics required by a specific task or position) to achieve success in strategy implementation. Hrebiniak, (2008:1) and Cees *et al*. (2008:8) highlight the need to develop required capabilities, and recommend staff training and coaching as methods of addressing capacity gaps. Further, according to Varon (2002:3), leaders must invest in their people and recognise that the right people, not technologies, provide the only enduring source of creativity, improvement and change. Thompson *et al.* (2006) propose a nine-stage process in strategy implementation, indicating that the first step is to staff the organisation with the needed skills and expertise, and to consciously build and strengthen strategy-supportive competencies and competitive capabilities. Terry (2011:1) points out the need to expand employees' skills through training to acquire skills and competencies required by the strategic plan. Wheelen and Hunger (2006) point out the need for managers to coach employees to enable them to use their abilities and skills to achieve organisational objectives. It is necessary to motivate people to pursue the target objectives energetically and, if needed, modify their duties and job behavior to fit the requirements of successful strategy execution. There is also a need to align people skills and competencies with the requirements of the strategy, to ensure success in its implementation. This study will assess the extent to which MFOs align people skills and competencies according to the requirements of the strategy.

(o) Alignment of structure to the strategy

Several authors have cited that the choice of structure is vital to the implementation of a corporate strategy. According to Hrebiniak (2008:1), selection of the right structure is critical to strategy implementation success, and organisations must create the right balance of centralisation and decentralisation to achieve its strategic goals. Other authors such as Roberts (2007:2), Cees *et al*. (2008:8) and Edwards (2009), have pointed out the need for organisations to align structures to the strategy to achieve success in its implementation. These authors recommend organisational structures that empower people and enhance communication. From the foregoing, organisational structures at corporate and business levels must be aligned with the strategy. This study will assess the extent to which structures of MFOs are aligned to strategies to be implemented.

5.5.5.2 Level of strategy implementation based on literature review findings

Some authors have reported the level of strategy implementation using percentages of implemented strategies, based on the total number of those developed. From this analysis, authors have determined the level of implemented strategies as being low, high, medium or moderate. For example, Robin (2009:1) has found that only 10% of strategies have been implemented, and organisations fail to reap the benefits of implementing the other 90%. Corboy and Corrbui (1999:290) indicate that less than 30% of strategies are implemented, and this view is supported by Miller (2002:359), while Morgan *et al*. (2007) find that only 10% of strategies have been implemented.

Based on the secondary information relating to the level of strategy implementation, this study adopted the following scales in measuring the level of strategies implemented by MFOs according to the perceptions of the managers in the sample:

- *Low level of implementation* – less than 40% of strategies implemented on time.
- *Moderate level of implementation* – 41 to 70% of strategies implemented on time.
- *High level of implementation* – 71% and more of the strategies implemented on time.

5.6 CONCLUSION

From this section, it is clear that there are no agreed frameworks to support managers in strategy implementation. However, it is also clear that various factors need to be considered for effective strategy implementation. There are few empirical tests of the models developed to assess their effectiveness in supporting strategy implementation. Another observation is that the latest frameworks such as that of Okumus (2003) are more comprehensive, and have attempted to explain relationship among the various factors. However, the models do not explain how the managers should address the identified factors to enhance implementation of the strategy. There is clearly a need for increased research in this field.

In addition, the models show that organisations must attend to factors related to context, content and operational processes, that affect strategy implementation. The model for this study has classified the factors impacting strategy implementation in terms of three factors. The assumption is that if MFOs are aware of these factors and knowledgeable on how to deal with them, the level of strategy implementation is likely to improve..This section has provided explanations of each factor in the study's hypothetical model.

Finally, the chapter has provided a section with details on variables that could be used to measure the level of strategy implementation.

Chapter 6 will provide the research methodology for this study.

CHAPTER 6

RESEARCH METHODOLOGY

6.1 INTRODUCTION

The previous chapter described the hypothetical model of the study and operationalised the research variables. This chapter focuses on the research design and methodology of the study. Research has been given numerous definitions and some of them are remarkably narrow, such as defining research as strictly within particular definitions of the scientific method (Warren 2008). This author defines research in a broader sense as a systematic enquiry into aspects of our world. It is systematic because whatever the methods used, research proceeds through specific and purposeful steps such as designing the research project, data collection and data analysis. Research is also an enquiry because it invariably involves questioning, although definitive answers may be elusive or not even the goal. Mugenda and Mugenda (2000:1) also contends that research involves diligent enquiry or critical examination of a given phenomenon, involves exhaustive study, investigation or experimentation, and follows a logical sequence in design, data collection, analysis and reporting. The purpose of research is to discover new information, describe phenomena, and enable prediction and control (which involves regulating phenomena under study). Further, Redmen and Mory (2009:2) define research as a systematised effort to gain new knowledge. From these definitions there is a consensus that research is a systematic process of enquiry with the purpose of understanding phenomena to generate new knowledge or solve a practical problem. Research can be classified in many ways based on the way data is collected and its purpose.

According to Mugenda and Mugenda (2000:48), research methodology describes the procedures that have been followed in conducting a study. Techniques of obtaining data are developed and data is collected to test the hypotheses, if any. The author further states that steps involved in conducting a study are described in detail as this helps

interested stakeholders to understand how the study was carried out and for the researchers who may wish to replicate the study. According to Sridhar (2008:10), research methodology is the science of studying how research is done scientifically to solve a research problem by adopting systematic steps. The steps describe the research design, data gathering and analysis. Research methodology is a way of finding out the result of a given problem or a research problem, and a researcher uses different criteria to solve the research problem (Industrial Research Institute 2010:3). The term "research methodology" thus refers to step-by-step procedures undertaken to carry out a study and these steps comprise the research design, data collection methods, analysis and interpretation of results.

This chapter focuses on the research methodology of the study and starts with an introduction, followed by details on the research paradigm, sampling design, measuring instrument, pilot study, data collection procedures and data analysis methods.

The section below provides details on two research paradigms, namely quantitative and qualitative approaches.

6.2 RESEARCH PARADIGM

A research paradigm can be defined as a set of beliefs upon which a research project is based. It is a theory or a framework within which research theories can be developed and that will fundamentally influence how the researcher sees the world and shapes the research understanding of how things are connected (Macdonald, Kirk, Metzler, Nigles, Schempp & Wright 2002:133). It is a conceptual framework used to make sense of the social world. In addition, a research paradigm influences the research design, data collection, analysis, results presentation and dissemination (Lather 2006:35). According to Collis and Hussey (2003:47), there are two research paradigms ranged on a continuum from a positivistic to phenomenological approach.

6.2.1 Quantitative research

The positivistic paradigm is alternatively known as the quantitative, objectivist or traditionalist research paradigm. It attempts to explain social phenomena by establishing a relation between variables, which are information converted into numbers or figures. The quantitative approach usually starts with a theory or a general statement proposing a general relationship between variables. This approach typically concentrates on measuring or counting, and involves collecting and analysing numerical data and applying statistical tests. By assigning numeric values to observed phenomena and counting the frequency of those phenomena, conclusions about the characteristics of the populations are derived (Collis and Hussey 2003:49). With the quantitative approach, clearly constructed hypotheses are formulated about the relationship between two or more variables. Data about these variables is collected by methods such as questionnaires, focus groups, interviews, case studies and experiments. The relationships between the variables are measured by means of statistical methods such as multiple regression analysis, structural equation analysis and the Pearson product-moment correlation analysis (Struwig and Stead 2001). According to the positivistic paradigm, human behavioural studies should be conducted in the same manner as studies in the natural sciences since social reality is independent of research objectives and exists independently of whether the researchers are aware of it or not. Hence, the act of investigating reality has no effect on the reality itself (Blumberg, Cooper & Schindler 2005).

6.2.2 Qualitative research

The phenomenological paradigm is known as the qualitative, subjectivist or humanistic approach. This approach suggests that social reality lies within the unit of research, and that the act of investigating the reality has an effect on that reality. This paradigm pays considerable attention to the subjective or qualitative state of the individual hence the name of this approach is qualitative research (Collis and Hussey 2003). The investigator

views the phenomenon to be investigated as more personal and softer. The emphasis is more on generating hypotheses from the data collection than testing a hypothesis. This paradigm gives considerable regard to the subjective state of the individual. The researchers applying the phenomenological approach focus on the meaning rather than the measurement of social problems. According to Struwig and Stead (2001), qualitative research concerns itself with approaches such as symbolic interactionism, ecological psychology and postmodernism, and employs statistical methods such as archival source analysis, observations, interviews, focus groups and content analysis.

The main research objective of this study is to investigate the extent to which strategy is implemented in MFOs, and the factors that influence implementation. The aim is to quantify the significance of selected variables, which dictates the positivistic or quantitative approach to be used in this study.

6.3 RESEARCH APPROACH

In the positivistic approach, there are two main types of research approaches, namely exploratory and descriptive research. Exploratory research is conducted when there are few or no earlier studies to which references can be made for further information or investigation. The aim is to look for patterns, ideas or hypotheses rather than testing or confirming a hypothesis. In exploratory research, the focus is on gaining insight and familiarity with the subject area. Descriptive research on the other hand describes phenomena as they exist. It is used to identify and obtain information on the characteristics of a particular issue (Lincoln 1998:15). This study used descriptive research to identify patterns and insights relating to factors influencing strategy implementation in MFOs in Kenya.

The sections below provide detailed information on the population and sampling design and procedure used in this study.

6.4 POPULATION

The population is the aggregate from which a sample is drawn. There is no comprehensive database of MFOs in the country. However, Central Bank of Kenya Report (2005) estimates that 150 non-governmental organisations (NGOs) and 3000 savings and SACCOs provide financial services to SMEs in Kenya. Hence, there are an estimated 3150 MFOs in this country. Some of the MFOs are members of Association of Micro Finance Organisations (AMFI) while others are not. Further, only about 20% of the MFOs have been in operation for over 10 years. This study assumed that strategy development for MFOs that are less than 10 years in operation is at a nascent stage or is just emerging, and therefore managers may not provide substantial contributions on the factors that could affect the level of strategy implementation in their MFOs. Therefore the total study population is 630 MFOs that have been in operation for more than 10 years.

6.5 SAMPLING DESIGN

A sample is “a smaller (but hopefully representative) collection of units from a population used to determine truths about that population” (Field 2005:1). According to Mugenda and Mugenda (2000:10), a sample is a smaller group obtained from an accessible population, since dealing with all the members involves a tremendous amount of resources and time. Hence, sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the larger group from which they are taken. The purpose of sampling is to secure a representative group which will enable the researcher to gain information about the population. Danaida and Marcello (2013:4) have defined sampling as "the procedure of drawing a fraction of a population for determining certain characteristics of the population". Benefits of sampling include: less cost for obtaining the data as compared to a census, sample subjects selected are more accessible, and a sample may be more accurate than a census. This study is focused on a sample of MFOs operating in Kenya and a sample of senior managers as respondents.

Before sampling, a sample frame is drawn from the population. A sample frame is a list from which the potential respondents are drawn. There are two major types of sampling used in social science research, namely probability and non-probability sampling. With probability sampling, all elements in the population have some opportunity of being included in the sample and the mathematical probability that any one of them will be selected can be calculated. Inference can be made on the entire population based on the sample statistic (Birchall 2005:1). In non-probability sampling, in contrast, population elements are selected on the basis of their availability. The consequence is that an unknown portion of the population is excluded. Because some members of the population have no chance of being sampled, the extent to which such a sample, regardless of its size, actually represents the entire population cannot be known (William 2006:2 and Birchall 2005:1).

Probability sampling, according to William (2002:1) and Birchall (2005:1) is further categorised as follows:

- *Simple random sampling*: This is the perfect random method. Individuals are randomly selected from a complete list of the population and every single individual has an equal chance of being selected;
- *Systematic random sampling*: This is a frequently used variant of simple random sampling. When performing systematic sampling, every k^{th} element from the list is selected (this is referred to as the sample interval) from a randomly selected starting point. For example, from a listed population of 6000 members and a sample of 2000 members, one would select every 30th (6000 divided by 200) person from the list. In practice, one would randomly select a number between 1 and 30 to act as a starting point;
- *Stratified random sampling*: This is a variant of simple random and systematic methods and is used when there are a number of distinct subgroups, in each of which it is required that there is full representation. A stratified sample is constructed by classifying the population in sub-populations (or strata), based on some well-known characteristics of the population, such as age, gender or socio-economic status. The selection of elements is then made separately from within

each stratum, usually by random or systematic sampling methods. Stratified sampling methods also come in two types, namely proportionate and disproportionate. In proportionate sampling, the strata sample sizes are made proportional to the strata population sizes. In disproportionate methods, the strata are not sampled according to the population sizes, but higher proportions are selected from some groups and not others. This technique is typically used in a number of distinct situations;

- *Cluster or multi-stage sampling*: This technique is frequently used and is usually a more practical, random sampling method. It is particularly useful in situations for which no list of the elements within a population is available and therefore cannot be selected directly. As this form of sampling is conducted by randomly selecting subgroups of the population, possibly in several stages, it should produce results equivalent to a simple random sample. Sampling starts at a high level , for instance countries, and the last level might be individuals in households. The levels are defined by subgroups into which it is appropriate to subdivide the population. Cluster samples are generally used if no list of the population is available, well-defined clusters could be identified, the number of elements in each level of the clusters can be estimated and the sample size must be large to enable the method to be used effectively.

According to Birchall (2005:2), non-probability sampling is much less desirable as it will often contain sampling biases, but such methods are unavoidable in some circumstances. There are three main subtypes of non-probability sampling as follows:

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- *Purposive sampling*: Subjects are selected for a good reason and tied to purposes of research. This is common when the nature of research requires a small sample and subjects are chosen with appropriate connections to what is being studied;
- *Quota sampling*: There is a pre-plan of the proportion of subjects to be interviewed from a given subset;

- *Convenience sampling*: Subjects are selected because of accessibility and availability and there is no reason tied to purposes of research.

In the present study, multiple sampling procedures were applied for the purposes of the study and the appropriateness of their applications to select the target respondents. The following sampling procedure was used:

- The first step was to consolidate a list of databasse of MFOs in the country from different sources as this was lacking. Lists were solicited from government agencies, namely the Registration Bureau of NGOs, Central Bank of Kenya for deposit taking organisations and the Ministry of Cooperatives. In total the list comprised 3150 MFOs operating in Kenya;
- The assumption of the study is that MFOs that had been in existence for less than ten years were at a nascent stage and had not yet formed a culture of strategic planning and implementation. As a result, only 20% of the MFOs had operated for more than 10 years, totalling 630. This was regarded as the total population of the study;
- From the total study population a sample was drawn. According to Sekaran (2003:294), a population of 1400 elements should have a sample size of 302. Since MFOs that had been in operation for 10 years and above were 630, a sample size of 135 organisations was considered appropriate;
- Purposive sampling was used to select MFOs that are members of the AMFI. Thereafter, convenience sampling was used to select the rest of the MFOs. In total, 135 MFOs were involved in this study. Where managers in an MFO were not responsive to the study, such MFOs were replaced;
- From each MFO, the CEO and one middle-level manager were selected as respondents to the measuring instrument, since senior managers should be at the helm of strategy development and its implementation. To ensure that the managers had a firm grip on strategy implementation issues of the MFOs, they needed to have been with the MFO for at least two years. A sample of 135 MFOs was taken and in each MFO, two managers completed the questionnaire, bringing

the sample total to 270 managers of MFOs. An additional 30 responses were obtained. A total sample size of 300 managers was used in this study.

The following section contains details of the measuring instrument used in this study.

6.6 THE MEASUING INSTRUMENT

According to Mugenda and Mugenda (2000:71), research instruments are used to collect the necessary information and the most commonly used instruments in social research are questionnaires, interview schedules, observation forms and standardised tests. Questionnaires are commonly used to obtain information about a population. Researchers choose which type of instrument, or instruments are to be used based on the research question, objectives or hypothesis of the study. The researcher must also know how the information collected will be analysed. Questionnaires can have structured or close-ended questions or unstructured or open-ended questions. There are several scales used in questionnaires to measure perceptions, attitude, values and behaviour. The rating scales consist of numbers and descriptions which are used to rate or rank the subjective or intangible components in research, and the numerical scale helps to minimise subjectivity and makes it possible to use quantitative analysis . The most commonly used rating scale is the Likert-type scale. Items used in this scale are declarative in form, the numbers indicating the presence or absence of the characteristics being measured. The scale usually comprises 5 to 7 response categories (Mugenda & Mugenda 2000:76 & Yolanda 2011:5).

A questionnaire must be well designed to collect the intended information. Mugenda and Mugenda (2000:76) and Dawson (2009:4) cite some of the rules in questionnaire construction as including: listing of the objectives; questions or hypotheses to guide in writing the items in the questionnaire; determine how the information will be analysed; writing of short questions; clarity of words or concepts; avoidance of double-barrelled items that have two separate ideas in one question; avoidance of leading or biased questions; use of simple words; avoidance of sensitive and personal questions, and

avoidance of psychologically threatening questions. The questionnaire can be self-administered, researcher-administered or used on-line.

The instrument in this study was a self-administered questionnaire. Research objectives and hypotheses guided the selection of questionnaire items. Since the study focused on obtaining the perceptions of managers on the extent to which strategy was implemented and factors influencing implementation, the questionnaire was constructed using a 5 point Likert-type scale rating. The following are the sections of the measuring instrument Sections A-E of which measured responses based on an ordinal scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree, and Section F responses were measured on a nominal scale:

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

The questionnaire was pilot tested to ensure that all ambiguities had been removed (Mugenda & Mugenda 2000:71). The following section provides details of the pilot study.

6.7 PILOT STUDY

The questionnaires were pre-tested in 22 MFOs where 40 respondents (CEOs and managers) completed the questionnaires. The purpose was to test the measuring instrument for validity and reliability (William 2006) and to determine how realistically the questions related to the ability of respondents. The importance of scrutinising data-gathering instruments is to identify ambiguity and misleading questions or instructions, and to suggest improvements. Minor changes were identified during the pre-tests and corrected before the actual empirical study was carried out. Table 6.1 shows results of demographic data of the pilot study respondents

Table 6.1: Demographic profile of pilot study respondents

	Variables	Items	Frequency	%
1	**Position in the organisation**	Chief Executive Officer	6	15
		Manager	34	85
2	**Gender**	Male	16	40
		Female	24	60
3	**Number of employees**	Small - < 50	29	73
		Medium - 51 – 199	11	27
		Large - 200+	-	-
4	**Years in existence**	1-5 years	8	20
		6-10 years	22	55
		11-15 years	2	5
		16 years+	8	20
5	**Type of registration**	Deposit taking MFO	5	13
		Company	14	35
		NGO	6	15
		Savings and cooperative	15	37
6	**Financial services provided**	Credit services	34	85
		Deposit taking	6	15
		Insurance services	-	-
		Medical services	-	-
7	**Number of clients/customers in thousands**	Below 20,000	25	63
		21,000-60,000	9	22
		61,000- 100,000	2	5
		Above 100,000	4	10
8	**Does the organisation have a strategic plan?**	Yes	39	98
		No	1	2

9	**Level of current strategy implementation**	Low: Less than 40% of strategies implemented on time	6	15
		Moderate: 41-70% of strategies implemented on time	28	70
		High: 71% and more of strategies implemented on time	6	15

The demographic results of the pilot study respondents were used to make a few changes to the final questionnaire in terms of the wording and sequence of some questions before it was administered in the empirical study.

6.8 DATA COLLECTION

According to Bharati, Patel, Richard and Hainsworth (2004), data types are categorised into two broad levels namely primary and secondary.

6.8.1 Secondary data

Secondary data is information that has been previously collected by individuals or agencies, usually for purposes other than one's own particular research study (Stack, 2009). Secondary data may be qualitative or quantitative. The secondary data of this study consisted of an in-depth literature review on strategy implementation, analysis of the business environment in Kenya and operations of MFOs. Sources for secondary data were textbooks, journal articles and the Internet.

6.8.2 Primary data

Primary data is what the researcher collects for a specific research purpose. Qualitative data is generally thought of as subjective, verbal and descriptive, and includes information captured by a wide range of media such as photographs and maps, case studies, reported happenings, in-place observation, and tape or video recordings of

conversations and/or activities. In contrast, quantitative data is generally numerical data, collected using some form of measurement and amenable to mathematical analysis (Bharati *et al.* 2004).

Bharati et al. (2004) define a “survey” as an observation of what is going on in the world at a particular point in time. The survey information can be collected in an extremely structured manner, or may be informal, or a mixture of these two approaches, or something in between. William (2006) identifies two broad categories of surveys, namely the questionnaire and the interview. Questionnaires are usually paper-and-pencil instruments that the respondent completes, while interviews are completed by the interviewer based on what the respondent says.

To collect primary data for this study, the survey method was used. The survey is a non-experimental, descriptive research method. Surveys can be useful when a researcher wants to collect data on phenomena that cannot be directly observed. In a survey, researchers sample a population. Surveys can use qualitative (e.g. ask open-ended questions) or quantitative (e.g. use forced-choice questions) measures. There are two basic types of surveys: cross-sectional surveys and longitudinal surveys. Cross-sectional surveys are used to gather information from a population at a single point in time, while longitudinal surveys gather data over a period (Babbie 2003).

The primary data in this study was collected from CEOs and middle-level managers of the sampled MFOs by means of a survey using self-administered questionnaires. The survey targeted a CEO and one senior manager in each MFO. Introductory letters to the MFOs were solicited from the Association of Micro finance Organisations, CBK and from the Ministry of Cooperatives. These letters assisted in soliciting cooperation from the MFOs and to address any fears and suspicions from the MFOs and the respondents regarding the study. A variety of methods were used to get the questionnaires to the MFOs and particularly to the respondents. For the MFOs located in Nairobi and Central Province of Kenya, questionnaires were hand-delivered by research assistants. Other methods used were mailing by post, emails and posting the instrument on the AMFI

website for the respondents to download, complete and send back electronically. After five days research assistants collected all questionnaires that had been hand-delivered while all the questionnaires sent electronically were downloaded in a separate folder to allow data entry and analysis.

6.9 DATA ANALYSIS

Raw data obtained from the field is difficult to interpret. It must be cleaned, coded, key-punched into a computer and analysed. It is from the result of such analysis that researchers are able to make sense of the data (Mugenda and Mugenda 2000:115). According to Sivia and Skilling (2006:33), data analysis is the process of analysing all the information and evaluating the relevant information that can be helpful in decision-making and can be done by using various tools and methods. Data analysis helps in deriving conclusions from the gathered information. O'Connor (2011) explains data analysis as the study of how we describe, combine and make inferences based on numbers, and that data analysis can be simple, descriptive or complex statistical analysis.

O'Connor (2011) further indicates the three general areas of statistics, namely descriptive, relational and inferential statistics. Descriptive statistics are measures of central tendency (mean, median and mode) and measures of dispersion (standard deviation and variance). Relational statistics fall into one of three categories: univariate, bivariate, and multivariate analysis. Univariate analysis is the study of one variable for a sub-population. Bivariate analysis is the study of a relationship between two variables, and the most commonly known technique here is correlation. Multivariate analysis is the study of relationships between three or more variables. Inferential statistics, also called inductive statistics, fall into one of two categories: tests for difference of means and tests for statistical significance. Data may fall into either parametric or non-parametric groups. The purpose of difference of means for parametric tests is to test hypotheses, and the most common techniques are called Z-tests. The most common parametric tests of significance are the F-test, t-test, ANOVA and regression.

In this study, the following data analysis procedure has been used:

- The first stage of analysis was to test the validity of the measuring instrument used in this study. *Exploratory factor analysis* was used to gauge whether the items used predicted underlying dimensions which were being assessed. This was done so as to confirm that the instrument was measuring what it was supposed to;
- The second stage of the analysis was to test the *reliability of the measuring instrument* using Cronbach's alpha values. The purpose of this stage was to measure the internal reliability of the instruments used in the study;
- The third level of analysis comprised *descriptive statistics* of the study respondents, profiles of MFOs sampled and level of strategy implementation;
- In the fourth stage, *multiple regression analysis* was used to assess how the dependent variables were influenced by the independent variables, as reflected in the hypothetical model;
- The fifth and final stage was concerned with testing the hypothesised relationships of the study using *correlation analysis.*

The SPSS computer programme (SPSS 18.0 Brief Guide 2006) was used to analyse the data.

The next section discusses the reliability and validity of the measuring instrument.

6.10 RELIABILITY AND VALIDITY OF THE MEASURING INSTRUMENT

6.10.1 Establishing the reliability of the questionnaire

A reliable questionnaire is one that would give the same results if used repeatedly with the same group (Collis and Hussey 2003:57). According to Zikmund (2000:280), reliability is the degree to which measures are free from error and in this case provide consistent results. Additionally, Malhotra (1999) states that reliability is the ability of a measuring instrument to determine the proportion of systematic variation in the scores yielded by the instrument.

Hence, reliability measures to what extent responses provided on a test re-test basis are identical. It indicates the accuracy or precision of the measuring instrument (Norland 1990). Only a test of reliability will indicate whether results conducted using the questionnaire can be trusted. Reliability is measured by determining the association between variables from different tests of the instrument. If the association is high, the instrument yields consistent results and is therefore reliable. According to Cant, Gerber-Nel, Nel and Kotze (2003:122-124), test-retest, split-half, equivalent-form and the Cronbach's alpha coefficient are commonly used methods to assess reliability. Mugenda and Mugenda (2000:98) support this by stating that reliability of the instrument may be improved through conducting pre-tests on a small sample of persons similar in characteristics to the target group.

In this study, Cronbach's alpha coefficient was used to calculate the internal consistency (reliability) of the measuring instrument. According to Malhotra (1999), Cronbach's alpha is the most widely used measure of the reliability of instruments in the social sciences. It shows the extent to which a set of test items can be treated as measuring a single latent variable. Additionally, it has been stated that Cronbach's alpha coefficient formula is a more accurate and careful method of establishing internal consistency than the Spearman-Brown and Kuder-Richardson reliability measures (Parasuraman 1991). Further, Cronbach's alpha coefficient has the advantage of producing a reliability estimate with only one administration.

Chronbach's alpha is expressed in terms of a reliability coefficient that ranges from 0 to 1, with 0 representing an instrument full of errors and 1 representing a total absence of errors. Although there is no prescribed standard, a scale that renders a reliability coefficient of above 0.70 is usually regarded as an internally reliable instrument (Esposito 2002). However, Cronbach's alpha of 0.50 has been regarded in several studies as acceptable for basic research (Tharenou 1993; Pierce and Dunham 1987). Further, a score of 0.80 means that 80% of the scores obtained is a true reflection of the underlying scores being measured, and indicates a strong association of the variables.

The first step in the data analysis procedure was to assess the internal reliability of the measuring instruments by means of Cronbach's alpha coefficients. The results of the pilot study, reported in Table 6.2, show that all the instruments obtained alpha values of more than 0.50, which are acceptable for basic research (Tharenou 1993; Pierce & Dunham 1987).

Table 6.2: Cronbach's alpha values of measuring instruments during pilot study

Measuring instruments	Alpha value	Number of Items
Content factors	.837	10
Context factors	.920	20
Operational factors	.885	40
Level of strategy implementation	.914	15
Outcomes of strategy implementation	.872	10

The table above shows that all the instruments obtained alpha values of above 0.80, which is an extra good value for the internal consistence of study instruments.

6.10.2 Validity of the measuring instrument

Validity is the extent to which the questionnaire is measuring what it intends to measure (Norland 1990). According to Cooper and Schindler (2006); Zikmund (2000), validity is considered to be the most critical attribute of a measuring instrument since an instrument should measure what it is supposed to measure; for example, a kilogram is not a valid measurement for height. Malhotra (1999) defines validity as the extent to which differences in observed scale scores reflect true difference among the subjects on the characteristics being measured, rather than systematic or random errors. Perfect validity requires that measurement errors should not exist. Further, Pennington (2003:37) indicates that validity is the extent to which a test measures what it claims to measure, and that it is vital for a test to be valid in order for the results to be accurately applied and interpreted. In addition, validity is not determined by a single statistic but by a body of research that demonstrates the relationship between the test and the

behaviour it is intended to measure. According to Diamantopoulos and Schlegelmilch (2000), there are many methods of assessing validity. The main methods are: content validity, criterion validity, nomological validity, construct validity, convergent validity, discriminant validity and concurrent validity. Of all the different types of validity, construct validity is considered the most sophisticated and rigorous type of validity to establish, and the most recommended for social research (Pennington 2003).

The following are meanings attached to some types of validity, according to Zikmund (2000) and Pennington (2003):

- *Content validity* is a non-statistical type of validity that involves "the systematic examination of the test content to determine whether it covers a representative sample of the behaviour domain to be measured";
- *Construct validity* refers to the extent to which operationalisation of a construct does actually measure what the theory says it does, for example, whether an IQ questionnaire measures intelligence. Hence, it seeks to answer theoretical questions about why a scale works and what deductions can be made concerning the theory of the basic scale;
- *Criterion Validity* evidence involves the correlation between the test and variables taken as representative of the construct. It compares the test with other measurers already held to be valid. For example, IQ tests are validated against measures of academic performance (the criterion).

In the present study, sufficient proof of content and construct validity was established using exploratory factor analyses. Both convergent and discriminant validity will be assessed. Convergent validity means that the variables within a single factor are highly correlated as evident by the factor loadings. Discriminant validity refers to the extent to which factors are distinct and uncorrelated. This includes checking the comprehensiveness of the measuring tool in line with the literature review, its ability to address the study goal and objectives, and its appropriateness to the respondents. To ensure face and content validity, physical verification of the format and design of the questionnaire were undertaken by means of expert judgement and a pilot study.

The section below gives details on the scope of this study.

6.11 SCOPE AND DELIMITATION OF THE STUDY

This study focuses on variables that influence the level of strategy implementation. It also focuses on the relationship between the level of strategy implementation and the performance of MFOs in Kenya. One hundred and thirty five MFOs were sampled and at least two managers from each MFO were interviewed.

6.12 CONCLUSION

This chapter has explored literature on research methodology. Topics covered comprised research paradigm, sampling design, measuring instruments, data collection procedures and data analysis methods. Apart from general theory on research methodology, the chapter has outlined the research methodology of the study in terms of research design, sampling and study population, description of the study instrument, data collection procedures and methods of data analysis suitable for the study.

Chapter 7 will provide the study results, using the research methodology outlined in this chapter.

CHAPTER 7

EMPIRICAL EVALUATION OF STRATEGY IMPLEMENTATION IN MFOs IN KENYA

7.1 INTRODUCTION

Chapter 6 presented the research methodology used to assess management perceptions on the content, context and operational factors that affect the level of strategy implementation in Microfinance Organisations (MFOs) in Kenya. Chapter 6 also underlined several statistical procedures which were used to analyse the raw data in this study. In the present chapter, the empirical findings are presented, analysed, interpreted and discussed. Reliability and validity of the measuring instrument was carried out and results are presented. Factor analysis, regression and correlation analysis have been undertaken and results are presented. Hypotheses were reformulated and results of the test are presented in this chapter and an empirical model to improve strategy implementation in MFOs will be presented.

7.2 SUMMARY OF THE EMPIRICAL INVESTIGATION OBJECTIVES

The main objective of this study was to assess managers' perceptions of factors that influence the level of strategy implementation in MFOs in Kenya and how the level of strategy implementation affects the performance of the MFOs. The factors influencing strategy implementation were categorised as *content, context and operational factors*. For content factors, variables include: stakeholder's participation and quality of the strategic plan. Context factors include: alignment of strategy to market conditions, strategy and structure fit, strategy and culture fit and strategic leadership. Operational factors considered in this study include: operational planning, monitoring of progress, resource allocation, people strategy fit, effective communication, strategic and management control systems, teamwork and information resources. The level of strategy implementation is considered low, medium or high, and is considered to affect the performance of the MFO. Performance factors considered in this study are financial sustainability of the MFOs and outreach, which is the ability to serve a large number of

client bases, expand to new geographical areas and develop a variety of products to meet the needs of the clients. In an effort to depict the outlook of the study, the hypotheses of the study are presented here again.

Based on the hypothetical model below are the identified hypotheses:

First set of hypotheses: Effects of the independent variables on the level of strategy implementation

$H_{1.1}$: There is a positive relationship between *stakeholder's involvement* in strategy formulation and the level of strategy implementation.

$H_{1.2}$: There is a positive relationship between the *quality of formulated strategies* and the level of strategy implementation.

$H_{1.3}$: There is a positive relationship between *organisational structure* and strategy fit and the level of strategy implementation.

$H_{1.4}$: There is a positive relationship between *organisational culture* and strategy fit and the level of strategy implementation.

$H_{1.5}$: There is a positive relationship between the *strategic leadership* and the level of strategy implementation.

$H_{1.6}$: There is a positive relationship between *alignment of strategy to market conditions* and the level of strategy implementation.

$H_{1.7}$: There is a positive relationship between *operational planning* and the level of strategy implementation.

$H_{1.8}$: There is a positive relationship between *monitoring of progress* in strategy implementation and the level of strategy implementation.

$H_{1.9}$: There is a positive relationship between *teamwork* and the level of strategy implementation.

$H_{1.10}$: There is a positive relationship between *resources allocation* to strategy and the level of strategy implementation.

$H_{1.11}$: There is a positive relationship between *people-strategy fit* and the level of strategy implementation.

$H_{1.12}$: There is a positive relationship between *effective communication* and the level of strategy implementation.

$H_{1.13}$: There is a positive relationship between the use of *strategic and management control systems* and the level of strategy implementation.

$H_{1.14}$: There is a positive relationship between use of *information resources* and the level of strategy implementation.

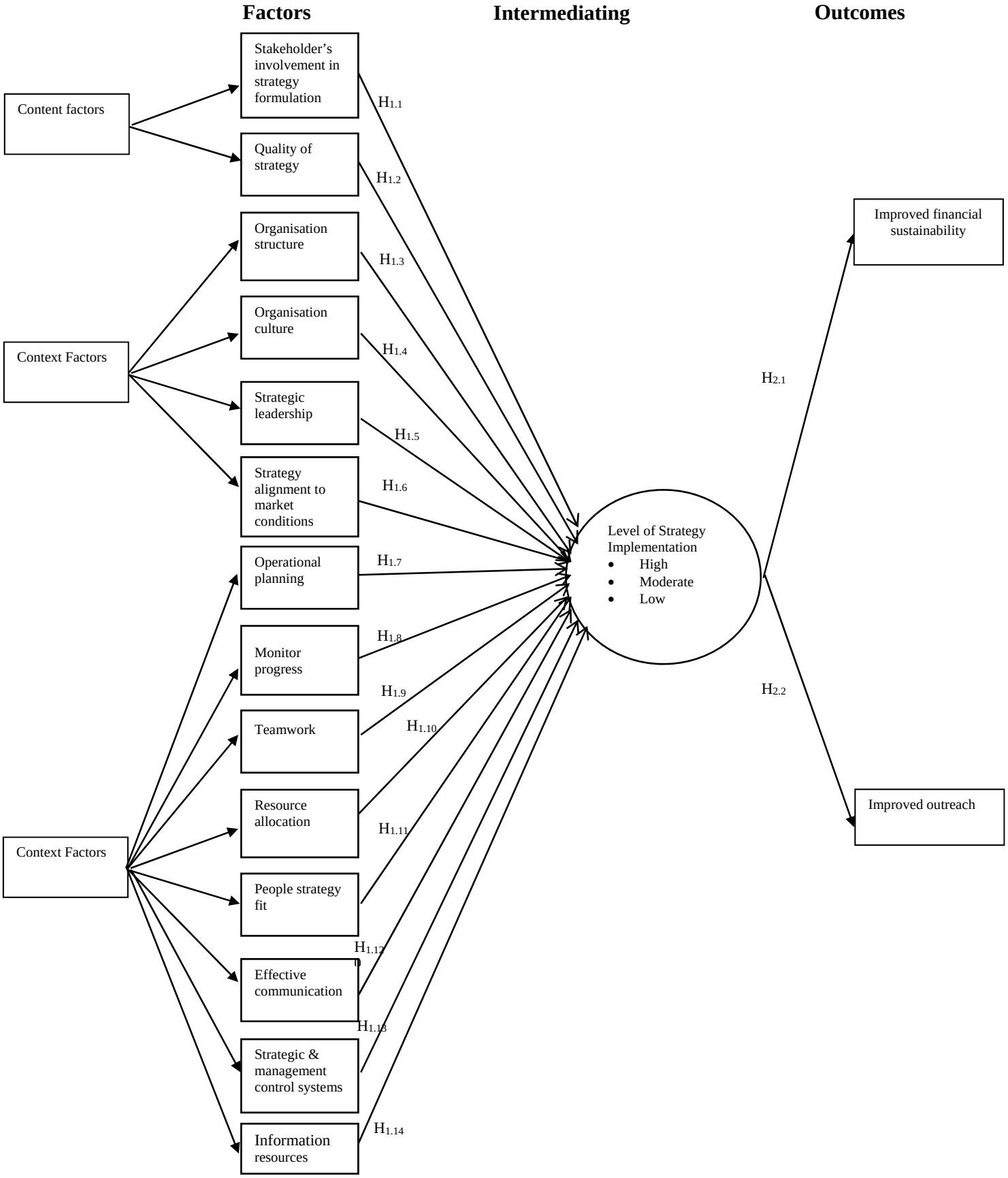
Second set of hypotheses: Effects of level of strategy implementation on organisational performance

$H_{2.1}$: There is a positive relationship between level of strategy implementation and *financial sustainability* of MFOs.

$H_{2.2}$: There is a positive relationship between level of strategy implementation and *outreach* of MFOs.

Figure 7.1provides a graphical model of the hypotheses.

Figure 7.1: Graphical illustration of the hypotheses



The section below provides details on the study data analysis steps whose results are presented in this chapter.

7.3 RESPONSE RATE AND DEMOGRAPHICAL PROFILE OF RESPONDENTS

Data for this study was collected by means of a self-administered questionnaire and distributed to 450 managers from MFOs in Kenya. The following section gives the response rate and demographic profile of the respondents and the profile of the MFOs.

7.3.1 Response rate

Table 7.1 below indicates the effective response rate of this study.

Table 7.1: Response rate of the study

Questionnaires	Response rate
Distributed	450
Usable received	300
Response rate	67%

Three hundred usable questionnaires were received, resulting in a response rate of 67%. The response rate was adequate since the sample size was for 300 managers. Forza (2002:173) advises researchers to achieve a response rate that is greater than 50% which was achieved in this study. The returned usable questionnaires were inspected to determine their level of acceptability, edited where necessary and coded, and Statistical Package for Social Sciences (SPSS version 20.0) was used for data analysis.

7.3.2. Demographic profile

Table 7.2 below shows the demographic profile of the respondents and the characteristics of the MFOs sampled.

Table 7.2: Demographic profile of the respondents and MFOs

Demographic Data	Category	Frequency	%
Gender	Male	112	37
	Female	118	63
Position in the organisation	Chief Executive Officer	35	12
	Manager	265	88
Number of employees	Small (<50)	146	49
	Medium (51-199)	83	28
	Large (200+)	71	23
Number of clients	Below 20,000	124	41
	20,000-60,000	68	23
	61,000-100,000	30	10
	Above 100,000	78	26
Years in existence	1-5 years	78	26
	6-10 years	86	29
	11-15 years	63	21
	16 years+	73	24
Financial services provided*	Credit services	252	84
	Deposit taking	153	51
	Insurance services	21	7
	Medical services	27	9
Type of registration*	Deposit taking MFO	123	41
	Company	84	28
	NGO	24	8
	SACCO	78	26
Possession of strategic plan	Yes	286	96
	No	11	4
Level of current strategy implementation	Low	58	19
	Moderate	141	48
	High	96	33

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

The respondents of the study were top managers (CEOs and senior managers) conversant with strategy formulation and implementation issues. The results indicate that 12% who responded to the questionnaire were chief executives and 88% were senior managers. This is because the majority of the CEOs was very busy and in most cases referred the researcher to senior managers. The results further show that 37% of the respondents were male and 63% were female. This shows that female managers were more receptive to the study and spared time to respond to the study instrument than their male counterparts.

Of the MFOs that were sampled for the study, 26% had been existence for a period of 1-5 years, 29% for 6-10 years, 21% for 11-15 years and 24% for 16 years and more). Although some of the MFOs were in existence for less than 10 years, they had embraced the culture of strategic planning since they all had formal strategic plans. Of the number of employees, 49% of the MFOs had fewer than 50, 28% between 51 and 199, and 24% had over 200 employees. Regarding the type of registration, 41% of the MFOs were registered as deposit-taking MFOs, 28% as companies, 8% NGOs, and 26% as SACCOs. This finding shows that MFOs are registered under different types of registration and there is a need to harmonise MFOs' registration in the country. Two common services offered to clients by MFOs were credit services mentioned by 84% of the respondents, and deposit taking (51%).The lowest services offered were insurance cited only by 7% of the respondents and medical services by 9%. Further, 41% of the respondents indicated that the MFOs were serving less than 20,000 clients and only 26% of respondents indicated their customer number was above 100,000. Ninety-six percent of the respondents reported that their respective MFO did possess a strategic plan and 48% reported that there was a moderate level of strategy implementation in their MFO’s (strategies implemented 41-70% of the time).

The section below provides a detailed procedure of data analysis for this study.

7.4 DATA ANALYSIS

The data analysis involved the following stages and that is how the empirical results are presented.

- The first stage of analysis was to test the validity of the measuring instrument used in this study. *Exploratory factor analysis* was used to gauge whether the items used predicted underlying dimensions which were being assessed. This was done so as to confirm that the instrument was measuring what it was supposed to measure.
- The second stage of the analysis was to test the *reliability* of the measuring instrument using Cronbach's alpha values with the use of a computer programme SPSS version 20.0. The purpose of this stage was to measure the internal reliability of the instruments used in the study.
- The third level of analysis comprised *descriptive statistics* of the respondents, profiles of MFOs sampled and factors under investigation.
- In the fourth stage, *multiple regression* analysis was used to assess how the dependent variables were influenced by the independent variables, as reflected in the hypothetical model.
- The fifth and final stage was concerned with testing the hypothesised relationships of the study using *correlation analysis*.

Table 7.3 indicates the variables tested in this study.

Table 7.3: Abbreviations of variables

Variables	Abbreviation
Independent	
Stakeholders participation	SP
Quality of strategy	QS
Strategic leadership	SL
Organisational structure	OS
Organisational culture	OC
Environmental factors	EF
Operational planning and monitoring	OPM
Management control systems	MCS
People-strategy fit	P
Teamwork	TW
Effective communication	EC

Dependent variables	
Outreach	O
Financial sustainability	FS
Intermediating variable	
Level of strategy implementation	LS

The section below provides detail of the reliability test of the measuring instrument.

7.5 EXPLORATORY FACTOR ANALYSIS

Validity is often considered to be the single most important attribute of a measuring instrument (Cooper and Schindler, 2006; Zikmund, 2000), as an instrument should measure what it is supposed to measure. There are different ways in which validity can be assessed. Diamantopoulos and Schlegelmilch (2000), state that the main methods of assessing validity are content validity, criterion validity, nomological validity, construct validity, convergent validity, and discriminant validity. Construct validity is considered the most sophisticated and rigorous type of validity to establish (Diamantopoulos and Schlegelmilch, 2000). Construct validity is recommended for social research. Construct validity is concerned with identifying whether the constructs of a study produce observations which are consistent with the theoretical characteristics of the idea. The components of construct validity are content, face, criterion, convergent and discriminate validity. In essence, construct validity deals with identifying the extent of the relationship between the instrument and the idea which is under investigation. Discriminant validity is one component of construct validity that shows the extent to which an instrument differentiates between different constructs. According to Malhotra (1999), discriminant validity assesses the extent to which a measure does not correlate with other constructs from which it is supposed to differ. A measure has discriminant validity when it has a low correlation with measures of dissimilar concepts (Diamantopoulos and Schlegelmilch, 2000; Zikmund, 2000). Discriminant validity is calculated using factor analysis, one of the primary tools for establishing construct validity. A factor analysis facilitates the identification of measuring items that have a high correlation among themselves, referred to as factors. The items which comprise the factors help determine the structure of the construct being measured. Exploratory

factor analysis can be used to detect whether discriminant validity concerns are manifest by cross-loading items.

In this study, sufficient proof of content and criterion-related validity was established on the basis of the literature review. Due to the importance of construct validity, as explained above, it was important to assess the discriminant validity of the measuring instruments. Discriminant validity, in this study, was assessed with the use of Statistical Package for Social Sciences (SPSS version 20.0). According to Burns and Burns (2008:446), factor loadings should range from +1.00 to -1.00. In this study, a loading of 0.5 and above was considered significant to confirm convergent validity. A cut-off point of three items loading in a factor was considered significant in this study.

7.5.1 Management perceptions of content factors that influence level of strategy implementation

Table 7.4 indicates that respondents viewed content factors affecting the level of strategy implementation as a two-dimensional variable. Each factor was initially tested by means of five statements. The Table further shows that items A1, A2, A3, A8 and A9 loaded onto factor one. The factor from these grouped items is referred to as s*takeholder participation.* Items A4, A5, A6, A7 and A10 all loaded onto factor two and these items have been grouped together as *quality of strategy*. These factor loadings provide sufficient evidence of convergent validity as all the items loaded onto a distinct factor with relatively high loadings.

Table 7.4 below indicates factor loadings in respect of management perceptions regarding content factors that influence the level of strategy implementation.

Table 7.4: Factor loadings: Management perceptions regarding content factors influencing the level of strategy implementation

	Items	Stakeholders' participation	Quality of strategy
		Factor 1	Factor 2
A1	Strategies are focused on unoccupied strategic positions.	**.545**	.091
A2	There is commitment of top management to persuade employees to support the strategy.	**.797**	.265
A3	We ensure appropriate allocation of time to activities and when results are expected	**.735**	.383
A4	There is appreciation/understanding of the strategy by all stakeholders.	.474	**.612**
A5	Stakeholders take ownership of a strategy and there is buy-in.	.243	**.792**
A6	Strategies distinguish the organisation from competition by having a unique and competitive offer to its customers.	.299	**.566**
A7	Strategies are based on a well-conceived and competitive business model.	.132	**.851**
A8	Middle-level managers are involved in strategy development processes and communicate the strategy to lower levels.	**.717**	.326
A9	Key stakeholders participate in strategy development.	**.674**	.329
A10	We anticipate and analyse key competitor's reactions to planned strategies, which require competitive intelligence.	.403	**.613**
	Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.		
	a. Rotation converged in 3 iterations.		

Table 7.5 below indicates factor loadings in respect of management perceptions regarding content factors influencing level of strategy implementation.

7.5.2 Management perceptions of context factors that influence the level of strategy implementation

Table 7.5 below indicates that respondents viewed context factors influencing level of strategy implementation in terms of four factors. Seven items loaded onto factor one (B1, B3, B4, B5, B8, B12 and B16). These items were grouped as the *strategic leadership* factor. Five items (B6, B7, B17, B18 and B20) loaded onto factor two and were referred to as *organisational structure*. Three items (B2, B10 and B11) loaded onto factor three and were referred to as o*rganisational culture*. Three items (B13, B14 and B15) loaded onto factor four and were referred to as *environmental factor*. Hence, from

the factor loadings content factors influencing strategy implementation comprised: strategic leadership, organisational structure, organisational culture and alignment of strategy to environmental factors. These factors were subjected to further analyses in sections below. It is noted that item B19 did not load onto any factor (all < 0.5). The fact that items that were expected to measure context factors loaded four different factors, with values greater than 0.2, demonstrates sufficient discriminant validity for further analysis.

Table 7.5: Factor loadings: Management perceptions regarding context factors that influence level of strategy implementation

			Component		
	Items	Strategic leadership	Organisational structure	Organisational culture	Environmental
		FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4
B1	Managers are prepared to change the strategy or implementation tactics as the external environment changes.	**.520**	.351	.340	.261
B2	Organisational culture is exhibited through employee recognition and reward systems.	.293	.156	**.674**	.178
B3	Strategic leadership is portrayed through the actual support and involvement of the CEO in the strategic initiative.	**.754**	.250	.255	.021
B4	Managers across all hierarchical levels are involved in the implementation process.	**.689**	.126	.391	.046
B5	Top executives disseminate the strategy and persuade all employees to support it.	**.571**	.516	.127	.009
B6	The structure influences the nature of interpersonal interaction within it.	.250	**.706**	.228	-.077
B7	Organisational culture, as reflected through shared beliefs and values, is aligned with strategies.	.367	**.621**	.250	.035
B8	The structure facilitates the free flow of information, coordination and cooperation between different levels of management and functional areas.	**.548**	.130	.087	.269
B9	The current structure is aligned to the strategy.	.428	.345	.420	.231

B10	Strategies are regularly revised and aligned to market conditions.	.241	.102	**.789**	.114
B11	Culture is acquired through a process of socialisation.	.037	.382	**.634**	.095
B12	Top management demonstrates the willingness to give energy and loyalty to the implementation process.	**.728**	.238	.193	.134
B13	Some strategies are not implemented as market conditions change before they are executed.	.298	-.239	-.039	**.675**
B14	Organisational culture is assessed when a new strategy is formulated or fundamental changes are introduced.	-.106	.266	.246	**.772**
B15	New strategies are appropriate to market conditions, trends and developments in the external environment until the implementation process is completed.	.139	.087	.151	**.653**
B16	Top managers are committed to the strategic direction of the organisation.	**.697**	.426	.000	.109
B17	There is an established system of assessing market conditions likely to affect strategy implementation.	.221	**.547**	.432	.386
B18	Structure is reviewed after a new strategy is developed.	.205	**.600**	.345	.399
B19	The structure reflects the organisation's situation and strategies.	.362	.450	.425	.359
B20	Organisational culture evolved from top management practices.	.317	**.739**	.098	.075
	Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.				
	a. Rotation converged in 8 iterations.				

Loadings of 0.5 and above were considered significant.

Table 7.6 below indicates factor loadings in respect of management perceptions regarding operational factors influencing level of strategy implementation.

7.5.3 Management perceptions of operational factors that influence level of strategy implementation

In Table 7.6 below respondents perceived operational factors influencing level of strategy implementation to comprise five factors as opposed to eight factors in the original theoretical framework (each factor comprised five statements). Seventeen items (C6, C8, C12, C13, C14, C15, C17, C25, C26, C28, C29, C30, C31, C32, C35, C37 and C38) loaded into factor one and were referred to as *operational planning and monitoring*. Thirteen items loaded onto factor two (C1, C2, C3, C4, C5, C9, C10, C11, C16, C22, C34, C39 and C40). These items were grouped as *management control systems***.** Further, three items loaded onto factor three, namely C23, C24 and C33 and were grouped as *people-strategy fit* factor. Four items (C18, C20, C21 and C36) all loaded onto factor four and were grouped as *teamwork* while three items (C7, C19 and C27) were grouped together as *effective communication*.

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

Table 7.6: Factor loadings: Management perceptions of operational factors that influence level of strategy implementation

	Items	Operational planning and monitoring	Management control systems	People-strategy fit	Teamwork	Effective communication
		FACTOR 1	FACTOR 2	FACTOR 3	FACTOR 4	FACTOR 5
C1	There is a clear system of reviewing progress towards action plan implementation.	.312	**.628**	.300	.030	.061
C2	Key performance indicators are measured by means of a scorecard.	.156	**.760**	.197	.042	.141
C3	The balanced scorecard is used to translate long-term goals into short-term measurable objectives providing a comprehensive view of the business.	.190	**.698**	.195	.193	.189
C4	Departments and individuals are provided with clear performance targets.	.381	**.690**	-.068	-.070	-.140
C5	Integrated communication plans are an effective vehicle for focusing employees' attention on the value of the selected strategies to be implemented.	.472	**.610**	-.112	.139	-.077
C6	Provision of skills and knowledge needed by staff at different levels is a priority.	**.598**	.369	.209	-.009	-.272
C7	Staff incentive systems are related to contributions made to strategy implementation.	.494	.280	.447	.195	**-.596**
C8	Financial evaluation of the strategy enables management to assess the impact of the strategy on the financial performance of the organisation.	**.656**	.247	-.015	.130	-.126
C9	There are staff with the required expertise to manage the information systems.	.285	**.647**	.251	.049	-.108
C10	Information processes and systems meet the demands of a new strategic vision or direction.	.266	**.645**	.322	.136	-.128

C11	The financial benefits of implementing a strategy are assessed.	.481	**.523**	.003	.113	.038
C12	There is clear allocation of tasks and expected results within a given timeframe to individuals and departments.	**.577**	.503	.063	.025	-.121
C13	Action plans are written down as a set of activities to be accomplished and how they are to be accomplished (means) within a given timeframe.	**.536**	.471	.263	-.003	-.228
C14	There are cross-departmental working relationships	**.676**	.132	.170	.002	-.143
C15	Budgets are prepared in line with departments' action plans.	**.658**	.220	.178	.024	-.140
C16	There are mechanisms to seek feedback on the strategy and its implementation from all stakeholders.	.452	**.506**	.167	.071	.191
C17	There is a formal performance review process and reports are produced.	**.521**	.494	.058	-.066	-.074
C18	Employees work as individuals and not in teams.	-.061	.063	.141	**.793**	.132
C19	Departmental plans are cascaded to individual level so as to enhance accountability to deliver results.	.270	.205	.036	.463	**.542**
C20	Goals and objectives are not commonly understood by departments and individual staff.	-.032	.050	-.007	**.856**	.094
C21	Strategy implementation has been affected by a lack of adequate resources.	.047	.061	.095	**.703**	-.201
C22	Strategies developed are evaluated to assess the most appropriate information system to support its implementation.	.207	**.506**	.457	.202	.070
C23	There are sufficient staff with required skills to implement strategies.	.163	.375	**.554**	-.019	.376

C24	Information about developments and changes are communicated to all levels in a timely fashion.	.384	.327	**.566**	-.023	.093
C25	There are efforts to build cohesive and high-performing teams.	**.717**	.208	.311	.001	.022
C26	Resources required to implement a strategy (e.g. people, financial and equipment) are assessed and translated into a budget before implementation can start.	**.655**	.144	.155	.129	.221
C27	Long-term goals are being translated into short-term measurable objectives.	.483	.406	.094	.207	**.514**
C28	There is adequate staff with required skills, competencies and experiences to support strategy implementation.	**.533**	.281	.213	.083	.473
C29	Control systems incorporate feedback and opportunities to devise and revise strategies as well as performance measures.	**.617**	.343	.122	.099	.292
C30	Most middle-level managers have adequate understanding of the strategy.	**.717**	.165	.161	-.032	.139
C31	Performance appraisal and measurement of strategic progress are based on the existence of measurable performance criteria.	**.724**	.321	-.048	.025	.184
C32	There is a system of reviewing financial performance and customer satisfaction	**.756**	.207	.160	-.066	.119
C33	There is no conflict over team goals.	.072	.157	**.691**	.224	-.005
C34	Key issues, elements and needs of a strategy are translated into objectives, action plans, and scorecards.	.198	**.660**	.371	.173	.099
C35	Key tasks related to strategy implementation are well-defined and understood by employees.	**.689**	.268	.293	.023	.037
C36	There is more emphasis on human aspects and less on organisational and systems-related factors.	.083	.163	.469	**.511**	-.072

C37	Frequent vertical communication is encouraged.	**.687**	.123	-.046	.200	.265
C38	There are deliberate efforts to communicate strategies to all levels.	**.783**	.196	-.012	.026	.161
C39	There are suitable and up-to-date information systems in place to support strategies.	.176	**.736**	.194	.133	.118
C40	Information systems are aligned to drive strategy implementation.	.181	**.745**	.074	.111	.278
	Loadings of 0.5 and above were considered significant. Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.					
	a. Rotation converged in 8 iterations.					

Table 7.7 below indicates the factor loadings for management perceptions regarding the level of strategy implementation.

7.5.4 Management perceptions regarding the level of strategy implementation

Table 7.7 indicates that all fifteen items or variables (D1-D15) loaded onto factor one (level of strategy implementation) using an accepted factor loading of 0.5. All these aspects regarding the level or extent of strategy implementation will be used as one factor in further regression and correlation analysis.

Table 7.7: Factor loadings: Management perceptions regarding the level of strategy implementation

	Items	Factor 1
D1	Simplifies the content of the strategy so as to communicate to people at all levels of the organisation.	**.658**
D2	Streamlines daily activities and realigns them to ensure they are in harmony with strategic business goals.	**.746**
D3	Uses internal rewards and control systems to determine the degree to which employees attach importance to strategic objectives and behave in accordance with them.	**.719**
D4	Makes use of frameworks and models to assist in strategy implementation.	**.696**
D5	Has clear accountability for delivering results.	**.602**

D6	Enhances articulation of strategies by having a good strategic vision that describes clearly what the leadership expects to be achieved over a specified period of time.	**.710**
D7	Resolves conflicting priorities or hidden agendas as a matter of priority.	**.801**
D8	Has robust and visible management systems (e.g. operating, information, decision-making and reward systems) that are prerequisites for effective execution of strategy.	**.794**
D9	Generates enthusiasm for strategies and there is buy-in at all levels.	**.796**
D10	Identifies the causes of poor implementation and develops practical steps to improve strategy implementation.	**.825**
D11	Creates leaders across the organisation, particularly at the front line, where people and core processes create value for customers.	**.838**
D12	Has a strategy management office or dedicated team that breaches the gap between strategy formulation and implementation.	**.803**
D13	Aligns and engages organisational units and employees with the organisation's core foundation, strategy and corresponding initiatives.	**.839**
D14	Is focused on effecting changes necessary to ensure successful strategy implementation.	**.820**
D15	Has well-crafted strategies which do not get lost in the pressure of day-to-day tactical concerns.	**.824**
	Extraction Method: Principal Component Analysis. 1 component extracted.	

Table 7.8 below indicates factor loadings in respect of management perceptions regarding outcomes of effective strategy implementation.

7.5.5 Management perceptions of outcomes of effective strategy implementation

From the literature review, two factors related to the outcomes of effective strategy implementation were *financial sustainability* and *outreach*. The assumption was that MFOs that achieve high level of strategy implementation demonstrate good performance as measured by financial sustainability and outreach. Table 7.8 below indicates that, seven items (E3, E4, E5, E6, E7, E8 and E9) loaded onto factor one and were referred to as *outreach.* Further, three items (E1, E2 and E10) loaded into factor two referred to as *financial sustainability*. The factor loadings provide sufficient evidence

of convergent validity as all the items loaded onto two distinct factors with relatively high loadings. These two outcome factors are further subjected to regression and correlation analysis in sections below.

Table 7.8: Factor loadings: Management perceptions regarding outcomes of effective strategy implementation

	ITEMS	Outreach	Financial sustainability
		FACTOR 1	FACTOR 2
E1	Ensure operational sustainability as operating income is sufficient to cover operational costs like salaries, supplies, loan losses, and other administrative costs.	.147	**.876**
E2	Experience continual profitability without compromising financial services to the poor.	.467	**.551**
E3	Obtain a low default rate which increases the ability of loan repayments and help to realise future lending.	**.717**	.317
E4	Ensure clients have access to higher loan amounts.	**.690**	.111
E5	Experience growth as a result of strategies being successfully implemented.	**.763**	.256
E6	Ensure there is steady expansion to new geographical areas so as to increase the outreach to SMEs.	**.844**	.073
E7	Recruit and serve an increased number of clients who were previously denied access to formal financial services as compared to competitors.	**.531**	.294
E8	Introduce a variety of financial services to the poor.	**.734**	.179
E9	Ensure there is efficiency in cost management and the benefits are passed to clients by charging lower interest rates compared to competition.	**.736**	.241
E10	Ensure financial sustainability as it can cover the costs of funds and other forms of subsidies received.	.155	**.770**
	Loadings of 0.5 and above were considered significant. Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalisation.		
	a. Rotation converged in 3 iterations.		

7.5.6 Empirical factor structure

Following the exploratory factor analysis of content, context, operational and outcomes factors, Table 7.9 below summarises the empirical factor structure. This structure will be subjected to regression and correlation analysis in sections to follow.

Table 7.9: Empirical factor structure

Variables	Individual items
Independent variables	
Stakeholders participation (SP)	A1, A2, A3, A8, A9
Quality of strategy (QS)	A4, A5, A6, A7, A10
Strategic leadership (SL)	B1, B3, B4, B5, B8, B12, B16
Organisational structure (OS)	B6, B7, B17, B18, B20
Organisational culture (OC)	B2, B10, B11
Strategy environmental factors (SEF)	B13, B14, B15
Operational planning and monitoring (OPM)	C6, C8, C12, C13, C14, C15, C17, C25, C26, C28, C29, C30, C31, C32, C35, C37, C38
Management control systems (MCS)	C1, C2, C3, C4, C5, C9, C10, C11, C16, C22, C34, C39, C40
People-strategy fit (P)	C23, C24, C33
Teamwork (TW)	C18, C20, C21, C36
Effective communication (EC)	C7, C19, C27
Dependent variables	
Outreach (O)	E3, E4, E5, E6, E7, E8, E9
Financial sustainability (FS)	E1, E2, E10
Intermediating variable	
Level of strategy implementation	D1, D2, D3, D4, D5, D6, D7, D8, D9, D10, D11, D12, D13, D14, D15

These individual items which significantly loaded were used to adapt the empirical model.

Table 7.10 below shows the Cronbach's alpha values of the factors in the measuring instruments.

7.6 INTERNAL RELIABILITY OF THE MEASURING INSTRUMENT

A reliable questionnaire is one that would give the same results if used repeatedly with the same group (Collis & Hussey, 2003: 57). According to Zikmund (2000:280), reliability is the degree to which measures are free from error, and in this case provide consistent results. Hence, reliability measures to what extent responses provided on a test, re-test basis are identical. It indicates the accuracy or precision of the measuring instrument (Norland, 1990). Only a test of reliability will indicate whether results

conducted using the questionnaire can be trusted. Reliability is measured by determining the association between variables from different tests of the instrument. If the association is high the instrument yields consistent results, and is therefore reliable. In this study, the Cronbach's alpha coefficient was used to measure the internal consistency of the factors used in the study. It shows the extent to which a set of test items can be treated as measuring a single latent variable. The Cronbach's alpha is expressed in terms of reliability coefficient that range from 0 to 1, with 0 representing an instrument full of error and 1 representing total absence of error. Although there is no prescribed standard, a scale that renders a reliability coefficient of above 0.70 is usually regarded as an internally reliable instrument (Esposito, 2002). Cronbach's alpha of 0.50 has been regarded in several studies as acceptable. This study considered a value of >0.5 as representing a sufficient standard. This value was used in agreement with Hair, Black, Babin, Anderson and Tatham (2006:244) who state that researchers normally use a minimum alpha of 0.7 but can also use lower coefficient values in accordance with the objectives of the study. Statistical Package for Social Sciences (SPSS version 20.0) was used for this function.

Table 7.10 indicates that twelve factors had obtained a Cronbach's alpha value of between 0.6 and 0.9 which indicates that these instruments have a high level of internal reliability. However, two factors (outreach and financial sustainability) returned values below the cut-off point of 0.5. The Cronbach's alpha values shown in Table 7.9 indicate values which range from 0.6 to 0.9. According to Hair *et al*. (2007:244), Cronbach's alpha values ranging from 0.6 to ≥0.9 are considered to be moderate to excellent, respectively. The result shows that the measuring instrument is reliable in that it can generate the same results if repeated. The items are consistent in measuring a single latent variable. Thus, the results generated using the instruments can be trusted. However, two factors measuring the outcomes, namely financial sustainability (FS) and outreach (O) obtained values below the cut-off of 0.5.

Table 7.10 below indicates the Cronbach's alpha values obtained in this study.

Table 7.10: Cronbach's alpha values of measuring instrument

Measuring instrument	Cronbach's alpha
Independent variables	
Stakeholders Participation (SP)	**0.795**
Quality of Strategy (QS)	**0.639**
Strategic leadership (SL)	**0.864**
Organisational structure (OS)	**0.662**
organisational culture (OC)	**0.678**
Strategy Environmental factors (SEF)	**0.609**
Operational planning and monitoring (OPM)	**0.943**
Management control systems (MCS)	**0.925**
People strategy fit (P)	**0.655**
Teamwork (TW)	**0.747**
Effective communication EC)	**0.600**
Intermediating variable	
Level of strategy implementation	**0.949**
Dependent variables (Outcomes)	
Outreach (O)	**0.243**
Financial sustainability (FS)	**0.043**

Although the two outcome factors (outreach and financial sustainability) did not attain the cut-off point they were retained for further analysis because they could be supported by previous literature findings. Steiner (2003: 99) argues that because an alpha value is affected by the length of the scale, high values do not guarantee internal consistency or unidimensionality. Clark and Watson (1995:309) recommend a mean inter-item correlation with a range of between 0.15 and 0.20 for scales measuring broad characteristics, as in the case of the two outcome variables (outreach and financial stability). The two factors each consisted only of five statements, and the main focus of the study was not to test the influence of the three categories of factors on the outcomes, but rather on the level of strategy implementation. Spiliotopoulou (2009:150) also argues that the use of Cronbach's alpha should not be done in a perfunctory way, but rather should reflect informed decision-making about which set of measurement assumptions one's data fits best. For some outcome measures, because of the data characteristics of the construct, researchers should probably accept lower figures of alpha estimates rather than the conventionally set benchmark of 0.70. Researchers should also consider whether it is appropriate to accept outcome measures with a high alpha estimate when the number of items included in the scale is too large. Table 7.11

below shows the Cronbach's alpha coefficients of the latent variables based on the comprehensive exploratory factor analysis conducted in this study.

Table 7.11: Cronbach's alpha coefficients of the latent variables

Variables	Individual items	Cronbach's alpha
Stakeholders participation (SP)	A1, A2, A3, A8, A9	**0.795**
Quality of strategy (QS)	A4, A5, A6, A7, A10	**0.639**
Strategic leadership (SL)	B1, B3, B4, B5, B6, B8, B12, B16B13,	**0.864**
Organisational structure (OS)	B6, B7, B17, B18, B20	**0.662**
Organisational culture (OC)	B2, B10, B11	**0.678**
Strategy environmental factors (SEF)	B13, B14, B15	**0.609**
Operational planning and monitoring (OPM)	C6, C8, C9, C12, C13, C14, C17, C25, C26, C28,C29, C30, C31, C32, C35, C37, C38	**0.943**
Management control systems (MCS)	C1, C2, C3, C4,C5, C9, C10, C11, C16, C22, C34, C39, C40	**0.925**
People strategy fit (P)	C23, C24, C33	**0.655**
Teamwork (TW)	C18, C20, C21,C36	**0.747**
Effective communication (EC)	C7, C19, C27	**0.600**
Dependent		
Level of strategy implementation (LS)	D1, D2, D3, D4, D6, D7, D8, D9, D10, D11, Q12, Q13, Q14, Q15	**0.949**
Outcome		
Outreach (O)	E3, E4, E5, E6, E7, E8, E9	**.0.243**
Financial sustainability (FS)	E1, E2, E10	**0.043**

7.7 ADJUSTED HYPOTHETICAL MODEL AND RENAMING OF HYPOTHESES

As some items were deleted and new variables formed as a result of the discriminant validity assessment in the exploratory factor analysis, the original theoretical model had to be adapted. Figure 7.2 below shows the adapted model of management perceptions regarding factors influencing strategy implementation and outcomes of effective strategy implementation.