

# An Empirical Study on the Types of Business Strategy Adopted by Microfinance Institutions in Nigeria

Nasiru Liman Zuru<sup>1</sup>, Jamilu Hussaini<sup>2</sup>

<sup>1</sup>*Department of Business Administration, Faculty of Management Sciences,  
Usmanu Danfodiyo University Sokoto, Sokoto State, Nigeria*

<sup>2</sup>*Division of General Studies, Kebbi State University of Science and Technology,  
Aleiro Kebbi State, Nigeria.*

**Abstract:** The importance of business strategy to organisational performance has been emphasized in the literature. However, there is little research that examined business strategies adopted by organisations in different industries. For instance, in the perspective of microfinance institutions (MFIs), literature indicates few studies have attempted to investigate the types of business strategy implemented by these important financial institutions, particularly in Nigerian context. Given this research gap, this study examines the business strategies adopted by MFIs in Nigeria. The data for the study were collected from 121 MFIs by using structural questionnaires. Results of the study indicate that the MFIs in Nigeria adopted the following strategies; low cost strategy, growth strategy and focus strategy. In addition, the result of the analyses indicates that none of the MFIs adopts differentiation and harvest strategy. The finding of this study has implication to owners/managers of MFIs to not only identify but also formulate and implement effective business strategy. MFIs that adopt effective business strategy will not only be able to improve their social and financial performance but also sustain their success and survival.

**Keywords:** Business Strategy, Microfinance Institutions, Performance

## I. INTRODUCTION

Regardless of their nature of business, every organisation needs to formulate and implement effective business strategy to compete successfully in the marketplace as well as cope with their business environment. Organisations formulate and implement their business strategy through the strategic management process. More importantly, organisation need to develop and implement effective business strategies based on their competitive advantage.

According to contingency perspective, there is no one best business strategy that is applicable to every type of firm. The contingency perspective prescribes that different firms competing in different business environment adopt different business strategies. Findings from previous studies have also provided evidence that suggested firms which utilized a specific business strategy that fit in particular business environment tend to perform better than those that did not do so.

Business strategy plays a vital role in determining the long term success of organizations. Over the years, business strategy as an area of research has continued to be emphasized in the literature. The focus on business strategy resulted from the realization that every organization needs an effective business strategy to achieve its organizational objectives and also to deal with the changes occurring in the business environment as well as to compete successfully in the market place.

Despite the importance of business strategy to organizations and the increase knowledge in this area of strategic management, limited research exists that investigate strategy in MFIs. In particular, about the business strategy adopted by these important institutions (Assefa, Hermes, & Meesters, 2013; Djalil, 2015; Ibrahim & Primiana, 2015; Kamukama, Ahiauzu, & Ntayi, 2011). As a whole, the review of the past studies indicates previous research mainly focused on examining business strategy in large firms that operated in selected industries such as manufacturing and retailing sectors.

The research has resulted not in limited information but also knowledge on the type of business strategy developed by MFIs. This limitation suggests more empirical investigation is needed in this area. Given this information and research gaps, the Objective of this paper is to investigate the types of business strategy adopted by MFIs in Nigeria. The paper is presented in six sections. The following Section Two is literature review. Next, Section Three is research methodology, section four present the results of the analyses, Section five presents discussion. Finally, section six short conclusion of the paper.

## II. LITERATURE REVIEW

The literature reveals that different types of strategies are developed at different levels in organizations. The types of strategy are classified according to the levels they are developed in organizations. In general, three different types of strategy are developed at three different levels. The three strategies include; corporate strategy, business strategy and functional strategy.

In one of Porter (1980) earlier works, the scholar emphasized on the need for firms to develop their competitive advantage in order to develop effective business strategy. For instance, in the case of manufacturing firms, they can obtain their competitive advantage by efficiently developing and executing the primary as well as the supporting activities of their value chain. The primary activities include; human resource management, technology development and procurement. The supporting activities involve; inbound logistics, operations, outbound logistics, marketing and sales and services.

In addition, according to Porter (1980), firms are able to create three types of generic business strategy from the competitive advantage that they gained from improving their companies' value chain. The three strategies include; low cost, differentiation and focus (niche). Through economics of scales, scope and technology, the low cost strategy reduces costs and increase profit. The differentiation strategy focuses on developing products that are different and unique. The niche strategy specializes on product development and marketing efforts tailored to a particular market segment that has cost or differentiation advantage.

In another study, Hashim (2000) attempted to investigate the business strategy adopted by small and medium-sized enterprises (SMEs) operating in different industries in Malaysia. The study adopted six business strategies and collected data from 100 SMEs operating in more than 19 industries. According to the results of the study, 30 SMEs used differential strategy, 26 firms implemented the low cost strategy, and 18 firms employed the focus strategy. Of the remaining 36 small firms, 17 firms utilized the growth strategy, six firms followed the harvest strategy and only three firms executed the vertical integration strategy.

Recently, the studies by Hashim and Ahmad (2009), (2010) Hashim and Zakaria, (2010) and Hashim (2015), provided empirical evidence that suggests that different firms in different business environment adopt different types of business strategy but also that business strategy is related to organizational performance. For instance, findings of the study by Hashim and Ahmad (2009) indicated that business strategy of exporting firms is positively related to the performance of these firms.

In addition, the study by Hashim and Zakaria (2010) also found the relationship between business strategy and performance of small and medium manufacturing firms. Furthermore, according to Hashim (2015), takaful firms specifically adopted four types of business strategy that include; product focus differentiation strategy, location differentiation strategy, cost focus strategy and marketing differentiation strategy. As for the relationship between business strategy and performance, the findings of the study also showed positive relationship between business strategy and the performance of the takaful firms.

More recent studies indicate that different organizations operating in different business environment should adopt different types of business strategy (Leinwand, Mainardi, & Kleiner, 2016; Reeves, Haanaes, & Sinha, 2015).

Of the research conducted on business strategy, many studies have focused on examining the linkage between business strategy and organizational performance. Organizations achieve their objectives by creating and executing effective business strategies. The earlier study by Giglierano (1987) found that organizations accomplished superior performance by developing and implementing effective business strategy that aligned with their business environment as well as based on their competitive advantage.

As presented above, the evidence from the literature and past studies suggest that different firms that operate in different business environment implement specific type of business strategy that align with their business requirements.

### III. RESEARCH METHODOLOGY

The target population of this study is the MFIs operating in the financial industry in Nigeria. There are currently 872 MFIs in Nigeria. According to the Central Bank of Nigeria (CBN) Directory, the 872 MFIs are located in 37 states. The MFIs involved in this study include; the Community Bank MFIs, the Private MFIs, the Government MFIs, the NGO MFIs, and the Foreign MFIs.

The data for this study was collected through questionnaires. The structured questionnaires were addressed to the Managing Director/CEO, General Managers and Senior Managers of the MFIs. Self-addressed envelope with paid postage stamp will be enclosed with the questionnaires mail to the respondents. By using the structural questionnaires, the data for the study were collected from 121 MFIs.

The structured questionnaire used in this study comprised three sections. In the first section, nine items were used to generate information regarding the background of the respondent. The 35 items in section two attempt to collect information concerning the characteristics of the MFIs. Section 3 has 40 items that focuses on the business strategies of the MFIs.

Of the 40 items, 15 items was used to measure low cost strategy, another 8 items measure differentiation strategy, seven items measure growth strategy, the other five items to measure harvest strategy, and the remaining five items measure focus strategy. The items used to measure these were adopted from renewed scholars of strategic management. The business strategies were rated by using a five numerical scale ranging from "Strongly Not applicable" (1) to "Strongly Applicable" (5).

IV. THE RESULTS

Objectives and Ownership of the MFIs

Table 1 shown 71 MFIs (58.7%) primary objective is social oriented and 50 MFIs (41.3%) are profit oriented. 39 MFIs (32.2%) have one owner, 42 MFIs (34.7percent) have two owners, one MFI (0.8%) have three owners, 12 MFIs (9.9%) have four owners, 25 MFIs (20.7%) have five owners and two MFIs (1.7 %) have six owners.

Table 1: Objectives and Ownership of the MFIs

	Frequency	Percentage
Year of establishment:	52	43.0
2007	28	23.1
2008	21	17.4
2009	18	14.9
2010	2	1.70
2011		
Primary objective:		
Social Oriented	71	58.7
Profit Oriented	50	41.3
Type of owners:		
Community Shareholders	51	42.1
Partners	30	24.8
NGO	21	17.4
	19	15.7
Number of owners:		
One	39	32.2
Two	42	34.7
Three	1	0.80
Four	12	9.90
Five	25	20.7
Six	2	1.70

Strategy adopted by the MFIs

This study employed five business strategies. The five strategies are low cost strategy, differentiation strategy, growth strategy, harvest strategy and focus strategy. The respondents were requested to select the business strategy that best represented the strategy of their MFIs.

The business strategy adopted by the MFIs that participated in this study is shown in table 4.4. 67 MFIs (55.4 percent) employed low cost strategy, 18 MFIs (14.9 percent) employed growth strategy, and 36 MFIs (29.8 percent) employed focus strategy. From the total of 121 MFIs, no firm employed either differentiation or harvest strategy.

Table 2: Business strategy

	Frequency	Percentage
Low cost strategy	67	55.4
Differentiation strategy	0	0.0
Growth strategy	18	14.9

Harvest strategy	0	0.0
Focus strategy	36	29.8
Total	121	100

V. DISCUSSION

As represented in the table2, 67 MFIs (55.4 percent) implemented low cost strategy, 18 MFIs (14.9 percent) employed growth strategy, and 36 MFIs (29.8 percent) employed focus strategy. From the total of 121 MFIs, no firm employed either differentiation or harvest strategy.

As shown in the table, low cost is most adopted strategy by the MFIs. The low cost strategy is implemented by 67 MFIs. The low cost strategy stresses on tightening cost and overhead control, financial products more efficiently than competitors, targeting mass market, outsource some tasks in order to lower costs, utilizing computer to minimize cost, charging interest rate on loans and management fee lower the competitor, and paying interest rate for cash deposits higherthen the competitors.

The next adopted strategy is focus strategy. The focus strategy is implemented by 36 MFIs. The focus strategy is centered on targeting and offering loans to certain customers, marketing of only specialty financial products and services, and providing specific loan for niche market.

The least adopted strategy by the 121 respondents MFIs is growth strategy. Growth strategy is implemented by 18 MFIs. The growth strategy emphasized on increasing the amount of loans, increasing sources of funding, spending on marketing activities to promote financial products and services to new customers, and increasing geographical locations to increase market share in the microfinance industry.

VI. CONCLUSION

This study aimed to establish the business strategies implemented by the MFIs in Nigeria. At the general level, the result of the study provide some empirical evidence that, the business strategies implemented by MFIs in Nigeria are low cost strategy, growth strategy and focus strategy.

In general, these findings indicate that the generic strategy types (low cost and focus strategies) developed by Porter are not only relevant to large firms, but also MFIs. These findings appear to concur with the early studies conducted by Dess, Lumpkin and Convin (1997) and Pearce and Robinson (1994) as well as previous studies by Homaid et al. (2017) and Oyewobi et al. (2016). These studies found empirical evidence that suggest MFIs adopted different business strategies such the three generic strategy types.

The field of strategic management is indeed very essential to the organisational performance. Strategic management is relevant as it touches on the very aspect of MFIs performance as well as their survival.The finding of this study has implication to owners/managers of MFIs to not only identify

but also formulate and implement effective strategy. MFIs that adopt effective strategy will not only be able to improve their social and financial performance but also sustain their success and survival.

#### REFERENCES

- [1] Assefa, E., Hermes, N., & Meesters, A. (2013). Competition and the performance of microfinance institutions. *Applied Financial Economics*, 23(9), 767–782. <https://doi.org/10.1080/09603107.2012.754541>
- [2] Djalil, M. A. (2015). The Effect of Core Competency on Competitive Strategy and Its Implication on the Performance of Islamic Banking and Islamic Microfinance in the Province of Aceh , Indonesia, 6(9), 251–265.
- [3] Giglierano, J. J. (1987). The relationship between founders' prior experience, strategy making and performance in new technical firms. The Ohio State University.
- [4] Hashim, M. K. (2000). Business strategy and performance in Malaysian SMEs: A recent survey. *Malaysian Management Review*, 11–27.
- [5] Hashim, M. K. (2015). Business strategy in Malaysian companies. NADI SDN BHD: ASAS.
- [6] Hashim, M. K., & Ahmad, S. (2009). Business strategies in exporting SMEs and their relationship to performance. Universiti Utara Malaysia Press.
- [7] Hashim, M. K., & Zakaria, M. (2010). Business strategy and performance of small and medium manufacturing firms in Malaysia. *World Review of Enterpreneurship, Managment Ans Sustainable Development*, 6(2), 125–134.
- [8] Ibrahim, R., & Primiana, I. (2015). Influence of strategic competitive advantage on cooperation performance. *International Journal of Economics, Commerce and Management*, 3(4), 1–18.
- [9] Kamukama, N., Ahiauzu, A., & Ntayi, J. M. (2011). Competitive advantage: mediator of intellectual capital and performance. *Journal of Intellectual Capital*, 12(1), 152–164.
- [10] Leinwand, P., Mainardi, C., & Kleiner, A. (2016). Strategy that works: How winning companies close the strategy-to-executive gap. *Harvard Business Review*.
- [11] Porter, M. (1980). *Competitive strategy*. New York: The Free Press.
- [12] Reeves, M., Haanaes, K., & Sinha, J. (2015). *Your strategy needs a strategy: how to choose and execute the right approach*. Massachusetts: Harvard Business School Publishing.