Influence of Organizational Policy on the Performance of Selected Microfinance Institutions in Kitui County

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ABSTRACT

Microfinance Institutions (MFIs) are unable to meet the current market demand requiring firms to identify workable methods that satisfy the organization's needs. The present study sought to determine the influence of Organizational Policy on The Performance of Selected Microfinance Institutions in Kitui County. The study applied a cross-sectional research design, population of the study included 175 middle-level managers in the departments of finance, human resources, procurement, sales, and marketing as well as the ICT department among 7 MFIs in Kitui county. The study applied a stratified random sampling technique to sample 122 respondents. Data was collected using questionnaires that were physically administered. The study analyzed data using descriptive and inferential analysis. The study revealed a β of 0.641, t= 7.507, which was associated with a p-value of 0.001. The study concluded that organizational policy had a significant and positive influence on the performance of microfinance institutions in Kitui County. Microfinance institutions should regularly review policies on resource allocations, codes of conduct, power relations, and communication to ensure that they are relevant at all times and reflect the requirements of the strategic plans.

INTRODUCTION

The current competitive business environment makes it hard for the organization to meet its objectives without an effective strategic plan. However, the presence of a strategic plan does not mean that an organization will work effectively. Managers have to assess the strategic plans to ensure they are effective in enabling an organization to achieve its goals. One of the ways to ensure that strategic plans are working is by conducting a SWOT analysis of the organization. The SWOT analysis exposes the various internal strengths and weaknesses and identifies gaps in the organization's strategic plans. The SWOT analysis can also enable a manager to update their strategic plan to take advantage of new opportunities while avoiding risks in the business environment. Managers must make several administrative considerations before implementing the organization's strategic plan. These administrative considerations ensure that an organization creates a unique value proposition that is hard to replicate by other rivals in the market (Benzaghta et al., 2021).

The organizational policy represents a set of guidelines, principles, and rules that guide an organization's operations and decision-making processes. Policies can cover areas such as governance, ethics, human resources, and operational procedures. The alignment of organizational policies with strategic goals promotes consistency and clarity, enabling employees to make decisions that align with the organization's vision and mission. Research findings indicate that organizations with well-defined policies experience enhanced efficiency, improved employee satisfaction, and increased overall performance (Johnson, et al., 2018). Strategic Planning provides a place to capture the organization's strategies, purpose, and priorities together with long-term objectives and steps to accomplish them to achieve the intended effect (GURL, 2017). Strategic planning done well has the advantage of availing the stakeholders of the possibilities and development plan, furthermore, it pushes the organization's management to foresee threats and comprehend the resources required in solving a strategic problem or exploiting opportunities. According to Gaturu et al. (2017), strategic planning also helps create a positive organizational culture whereby employees feel they share the organizational goals. Strategic planning also helps organizations improve the effectiveness of their operation plans while at the same time reducing costs associated with risky behaviors.

Microfinance organizations support smallholders (local firms, micro-enterprises, and poor and limited individuals that find it difficult to access mainstream banking firms and asset-collecting agencies) by way of minimal lending options (Bryson, 2018). This is accomplished by offering financing without collateral, cultivating an entrepreneurial spirit, disseminating company knowledge, and facilitating connections with institutions. Despite the growth of Microfinance organizations, Microfinance Institutions (MFIs) are unable to meet the current market demand requiring firms to identify workable methods that satisfy the organization’s needs (Bryson, 2018). Microfinance institutions have faced performance challenges, for instance, debtors’ average annual growth rate has been 2.8 %, way below the global average of 4.5% between the years 2009 and 2021. As a result of operational and finance expenses brought on by expensive lending methodologies and increased risk exposure, the sector’s efficiency and sustainable development levels have fallen drastically. Operating costs increased to 26.7 percent, while fund costs increased to 8.6 percent between the years 2010 and 2020, resulting in a decline in profitability (Bryson, 2018).

Ahmed et al. (2018) investigated the effect of resource allocation strategy on Kenya’s water service board performance. The study findings noted that strategic personnel improvement, competitive economic ability, effective infrastructure investment, and strategic technology installation boosted water Services Boards’ performance. Another scholar, Lo et al. (2018) conducted a study on the influence of technology in strategic planning on the performance of the Kenya Wildlife Service where they revealed a significant positive correlation between the organization’s success and the adoption of the Internet of Things. Nangih et al. (2020) studied the relationship between financial management in strategic planning and the performance of large enterprises in Busia town. The association between the parameters was determined using a regression model where interestingly no significant relationship was established between financial management practices and performance. The debate on strategic planning and its influence on organizational performance is ongoing. There is no existing study that can be used to generalize findings, different studies as noted above posited different and contradicting results which could be a result of the sector studied, the methodological scope, or the presenting gaps that need to be filled through a study that looks at different sectors. The available statistics on the performance of MFIs are worrying and alarming as noted by Bryson, (2018), which calls for an immediate study to investigate the influence that strategic planning has on the organizational performance of the MFIs in Kenya, focusing on those in Kitui County.

LITERATURE AND HYPOTHESIS

Theoretical Review

Goal-Setting Theory

Goal-setting theory was first introduced by Edwin Locke and Gary Latham in 1971. The theory postulates that setting higher goals for employees motivates them to work harder through which an organization can attain higher performance (Hartono & Murniati, 2020). According to the goal-setting theory employee’s productivity is usually very high when they are given clear goals that are also challenging and specific (Locke & Latham, 2019). Besides, the theory emphasizes giving feedback from performance contracts. The effectiveness of the goals in the goal-setting theory is determined by the specificity, difficulty, acceptance, and feedback on the goals set. More specific and challenging goals usually lead to higher performance because they give clear direction and motivate the employees in an organization to work harder, therefore, resulting in higher performance. However, too difficult and unrealistic goals may lead to lower motivation among staff (Yurtkoru, et al., 2017).

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The theory also emphasizes goal commitment whereby employees who remain committed to a course usually persist to attain certain targets in an organization. Commitment to a goal is influenced by certain factors including the values of an individual, external support, and self-efficacy. Organizational policies play critical importance in the goal setting of the individual as to what is expected of the individuals, teams, and the overall organization (Swann, et al., 2020). Organizational policies promote the setting of specific and challenging goals, employees are more likely to become motivated in working towards the goals which ultimately leads to better performance. Besides organization policies that enhance feedback and reward achievements are more likely to promote organizational goal commitment and therefore overall business performance. Regularly evaluating performances on goal attainment helps in tracking the progress and ultimately shaping the progress to yield better outcomes (Locke & Latham, 2020).

Empirical Literature

Olson et al. (2018) sought to research the influence of organizational policy on the performance of organizations in Ethiopia. The researchers concentrated on the company’s culture and its link to the version of the various firms. The researchers’ goal for this study was to determine the effective plans that an oiling company used to improve the company’s performance. The study used the Denison corporation framework to choose to serve as the conceptual framework. Twenty senior managers from a business organization in Ethiopia engaged in semi-structured face-to-face surveys as part of a descriptive survey. The chosen candidate had a minimum of five years’ worth of expertise in developing strong workplace culture inside business groups. The transcripts, categories, and codes of the survey questionnaires were then member verified and cross-referenced to improve the reliability of the findings. The study results showed that a clearly stated objective created a sense of mutual understanding between staff and managers and that employee-focused administration helped inspire people. The community’s well-being via the self-regulatory social responsibility of corporations was one of the critical company core outcomes. The researchers concluded that poor corporate culture and low integration of cultural practices in the company significantly adversely affect the company’s productivity and decrease the shareholders’ returns. Consequently, the researchers recommended that business managers adopt various measures to maintain their operations while raising employee and community living standards and promoting community change in the neighborhood. However, the study’s results cannot be used to generalize the findings for the microfinance institutions in Kenya. This is because the survey was conducted in an oiling company.

Roffia et al. (2022) researched how leadership policies affected a company’s financial success and discovered how workers’ openness to change plays a mediating role. According to the research, employees’ openness to change moderates the link between leadership policies and business financial success. 213 Greek delivery companies’ workforce answered surveys about their companies’ leadership styles, and their managers also assessed their openness to transformation. The research framework was put to the test using the modeling of structural equations. The survey’s findings demonstrate that enthusiasm and encouragement mediate the link between leadership and a firm’s earnings success. They also highlight the importance of leadership in enhancing a return on assets. The theoretical and applied implications of these findings are discussed. The research was conducted during the severe Greek economic crisis, a moment when employees’ conduct was greatly influenced by distinctive and challenging both internal and external connections.

Consequently, there is an opportunity for a further survey to affirm that the relationships identified in the literature remain relevant when economic conditions are much more desirable. In real-world applications, the study recommends that strategic leaders in various corporations should consider employees’ flexibility during work, thus improving the firm’s financial performance. Nevertheless, the study’s findings cannot be used to generalize the results of the current study because it was conducted in a different geographical location and demands differ from those of Kenya.

Akinola (2018) conducted a study on the relationship between organizational policy and the company’s

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performance. The researchers' main objective was to determine how corporate ethics financially affected Ghanaian business performance. The researchers have raised concerns regarding Ghanaian corporate ethics' impact on financial success. The Return on Assets (ROA) was chosen as the dependent variable since it measures a company's overall financial success. Excellent ethical conduct (EEC), the elimination of dishonesty (D), and the decrease in nepotism were independent factors (N). The researchers used the companies' financial documents as secondary information, while a cross-sectional questionnaire survey was used to collect primary data. The study chose forty (40) business companies listed on the stock market. The researchers represented the results of a multiple regression analysis using Tables and Figures. Findings indicate that enterprises that follow ethical business practices have the potential to improve their profitability by up to 45.0, 38.4, and 43.7% by boosting EEC per unit and decreasing C and N, correspondingly. The profit margin of the companies under study was positively correlated with each independent variable. The research Findings indicate that a firm's ROA and monetary success are favorably and significantly connected with its adherence to ethical business practices. According to these results, the researchers advise business organizations to focus more on policies that support moral conduct by putting ethics standards in place and curtailing or eliminating nepotism to improve their chances of achieving financial success.

Additionally, businesses should promote ethical leadership, maintain gender parity and equality, and teach employees about ethical workplace practices. The results of this study shall contribute to the body of knowledge that academics may continuously draw from. However, the study was conducted in general financial sectors; thus, there is a need for research on microfinance companies in Kenya. Therefore, the results of this study cannot be used to generalize findings.

Donkor et al. (2018) sought to determine the link between organizational performance and policies. Using a representative sample of non-financial organizations in Ghana, the research investigated the impact of company capital structure decisions on their performance. The study's findings indicate that capital structure choices substantially affect how healthy businesses perform. Over seven years, from 2010 to 2016, the study selected 26 listed firms on the Ghana Stock Exchange. Financial indicators and equity ratios were both employed in the study to assess financial performance. The researcher's findings were that the leverage factors were adversely correlated with performance in every regression outcome. The study's results revealed the importance of guidelines in the company and their effects on performance.

Moreover, performance and current short-term liabilities, predicted to be favorably correlated, are adversely associated. The claim that short-term debt and credit are positively correlated is supported by the fact that short-term borrowing is frequently inexpensive and accessible. However, stockholders often experience the impact of such choices on profitability. Thus, preferences regarding the capital structure significantly influence the equity return as a success factor. This holds regardless of the detected economic leverage variable, including overall, simple, and long-term debt. Consequently, management continually decides how much debt to use in a corporation, with shareholders as the essential aspect. Nevertheless, the findings of this study cannot be used to generalize the results of the study because the financial indicators in the non-financial companies may not be the same as those in microfinance, especially in Kenyan companies.

Paniagua et al. (2018) studied the relationship between the organization's policies and the company's performance. The researcher analyzed the impact of different features of a corporation's policies on 189 financially strained Indonesian enterprises from 1988 to 1996. The financial accounts of these firms were used to get quantitative data. Data was analyzed using descriptive statistics and regression. The study's findings showed that policies to retain insider ownership positively correlate with the chance of business survival. Companies that changed their president by an external shareholder were at risk of facing firm failure twice more. The analysis showed that different organizational approaches to policies had diverse effects on the listed companies' asset value. The study also showed that excellent stewardship enhances a company's performance, resulting in higher stock returns. The study was able to pinpoint the specific organizational policies that have an impact on the performance of the financial sectors. Nevertheless, the study's conclusions may not be applied to microfinance institutions in Kenya because the analysis was performed in Caribbean firms and not in listed companies in Kenya.

Ibrahim (2021) sought to evaluate the link between organizational policy and the company's performance in Ontario. The researcher's main objective highlighted two novel organizational ethical-based frameworks in this exploratory study. One approach quantitatively uses a set of predetermined variables to measure the company value indicator (CV-Index). The second approach calculates the stock values of ownership concerning that same CV-Index and certain other variables. The researchers used various methods for companies in Canada that are registered on the Ontario Stock Exchange (TSX). Researchers discovered significant evidence through the survey's assessment that organizational values (CV-Index) are significantly linked to company profits. The findings are even more critical regarding companies with low competition valuations. According to academic research, business ethics are essential for administration, staff, investors, stakeholders, and the community.

Hypothesis: *Organizational policy does not have a significant influence on the performance of Microfinance institutions in Kitui County.*

DATA AND METHODS

Research Design: The study applied a cross-sectional survey research design. The research design was chosen because of its ability to establish the nature of the relationship between variables which in the current study will be the influence of organizational policy on the performance of MFIs in Kenya.

Target Population: The population of interest in the study was 175 middle-level managers in the departments of finance, human resources, procurement, sales, and marketing as well as the ICT department among 7 MFIs in Kitui county.

Sample Size and Sampling Design: The sample for the study was 122 respondents. To arrive at the sample size, Taro Yamane's statistical formula for Sampling at a margin error of 5% was applied. The formula is as follows: $n=N/[1+N(e^2)]$. Where n is the sample size for the study, N is the entire population for the study and e is the margin of error. With a margin error of 5%, a sample size of 122 respondents was obtained as follows: $n= 175/ [1+175(0.05*0.05)] = 121.73$ or 122 to the nearest whole number.

Data Collection Procedure: The study applied a questionnaire for data collection. A questionnaire was preferred due to its ability to collect data within a short period with a high degree of accuracy. The researcher was assisted by two research assistants who helped in administering physical/ paper questionnaires to the middle–level managers.

Data Analysis and Presentation: Data for the study was analyzed through both descriptive (frequency, mean, percentage, and standard deviation) and inferential analysis (simple regression analysis) at a significance level of 5% using a statistical package for social sciences (SPSS). The simple regression model was as follows: $Y=\alpha+ \beta_1X_1+ \mathcal{E}$………………….. Equation (i)

Where: Y = performance of MFIs; organizational policy; β = Regression coefficients of the organization policy and Ɛ =error term in the model.

FINDINGS AND DISCUSSIONS

Response Rate: The study administered 122 questionnaires out of which 106 questionnaires were returned, representing a response rate of 86.88%.

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Demographic Statistics

Table 1 revealed that the majority of respondents were male as shown by 72.6%, with only 27.4% of respondents who were female. Results also show that the majority of the respondents were between 40 and 49 years old, followed by 19.8% of the respondents who were between 26 and 39 years old, and only 11.3% of the respondents were above 50 years old. Besides, the table revealed that the majority of participants had between 5 and 9 years of experience as shown by 35.8%, followed by 34.9% of the respondents who were above 10 years of experience, whereas only 29.2% of the respondents had less than 5 years of experience.

Table 1: Demographic Statistics of the Respondents

Gender	Frequency	Percent
Gender of Respondents		
Male	77	72.6
Female	29	27.4
Total	**106**	**100.0**
Age of Respondents		
Less than 25 years	15	14.2
26-39 years	21	19.8
40-49 years	58	54.7
Above 50 years	12	11.3
Total	**106**	**100.0**
Year of Experience		
Less than 5 years	31	29.2
Between 5 to 9 years	38	35.8
Above 10 years	37	34.9
Total	**106**	**100.0**

Descriptive Statistics

Descriptive Statistics on Organization Policy

Table 2 revealed a mean score of 3.99, which suggested that respondents agreed with the statement, “We have a code of conduct for the employees on ethics”; also, a mean of 4.08 was obtained, suggesting that the respondents agreed with the statement that, “We have an organizational structure for all positions in the organization”. The study further revealed a mean of 4.21 associated with the statement, “We have a decision-making structure in our organization” received a mean of 4.21, which suggested that respondents agreed with the statement. Besides, a mean of 4.24 was attained on the statement, “We have leaders who come up with the visions for the organization", which implied that the respondents agreed with the statement.

Finally, respondents agreed with the statement, "We have policies on how to share resources" as shown by a mean score of 3.84.

Table 2: Descriptive Statistics on Organization Policy

Statement on Organization Policy	M	Std. Dev
We have a code of conduct for the employees on ethics	3.99	0.737
We have an organizational structure for all positions in the organization	4.08	0.678
We have a decision-making structure in our organization	4.21	0.686
We have leaders who come up with the visions for the organization	4.24	0.775
We have policies on how to share resources	3.84	1.148

Descriptive Statistics on Organizational Performance

Table 3 shows a mean of 4.31 which is associated with the statement, "We have achieved high profits" which implied that the respondents agreed with the statement. The study also revealed a mean score of 4.27, which was associated with the statement, "We have achieved improved market share" also received agreement from respondents, which implied that respondents agreed with the statement. Besides, respondents agreed with the statement that "We have new business innovations" was agreed upon by respondents, as given by a mean of 4.43. Further, the study revealed that the respondents agreed with the statement that, "We have attained high sales volume" as shown by a mean of 4.37. Lastly, respondents agreed with the statement that "We have had good cash flows" received agreement from respondents, as shown by a mean of 4.03.

Table 3: Descriptive Statistics on Organizational Performance

Organizational Performance	M	Std. Dev
We have achieved high profits	4.31	0.667
We have achieved an improved market share	4.27	0.868
We have new business innovations	4.43	0.805
Higher attained a high sales volume	4.37	0.919
We have had good cash flows	4.03	.037

Hypothesis Testing

Table 4, revealed an R-square of 0.351, which suggested that 35.1% of the variations in the performance of microfinance institutions in Kitui County, could be explained by organization policy. An F-ratio of 56.350, which was associated with a p-value of $0.001<0.05$, implied that overall the model was significant in predicting the performance of MFIs in Kitui County. Besides, the study revealed a β of 0.641, t= 7.507, which was associated with a p-value of 0.001, which implied that organizational policy had a significant and positive influence on the performance of microfinance institutions in Kitui County.

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Table 4: Regression Analysis

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	**.593[a]**	**.351**	**.345**	**.38376**

Analysis of Variances						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	8.299	1	8.299	56.350	.000[b]
	Residual	15.316	104	.147		
	Total	**23.615**	**105**			

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	1.424	.355		4.016	.000
	Organizational Policy	.614	.082	.593	7.507	.000

1. Predictors: (Constant), Organizational Policy

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that organizational policy had a positive and significant influence on the performance of microfinance institutions in Kitui County. The study therefore rejected the null hypothesis, *Organizational policy does not have a significant influence on the selected microfinance institutions in Kitui County*.

Microfinance institutions should regularly review policies on resource allocations, codes of conduct, power relations, and communication to ensure that they are relevant at all times and reflect the requirements of the strategic plans. MFIs should also train its staff through staff handbooks and training sessions to enable staff to comprehend organizational policies on strategic plans so that they can handle more effectively their roles, effective communication to communicate to all stakeholders should be done to promote effective strategic planning. Besides, organizations should monitor and evaluate policies on their impact on performance regularly by collecting feedback from employees, finally, strategic leaders should lead by example to ensure that they adhere to business policies on ethics and codes of conduct so that others can follow suit.

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