Strategy and Performance of Microfinance Institution: Evidence from Nigeria

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Abstract:- **Despites the strategic management literature emphases on the influence of low cost strategy on the organisational performance, the review of literature reveals that theoretical and empirical contributions of low coststrategy to the Microfinance Institutions (MFIs) remained limited, particularly in the Nigeria context. The limited theoretical and empirical contributions in this field of study have resulted not only in minimal knowledge about the low cost strategy by MFIs but also the lack of information concerning factors that could influence the performance of these important financial institutions. Given the limited research as well as information in this field of study, this study attempts to examine MFIs in Nigeria from the strategic management perspectives. More specifically, this study investigates the relationship between low cost strategy and performance of MFIs in Nigeria. The study was based on a sample survey consisting of 121MFIs in Nigeria. The data for the study was collected by using structural questionnaire. Based on the analyses of the data using Statistical Package for Social Science (SPSS) and Partial Least Squares Structural Equation Modeling (PLS-SEM), the results of the study indicates significant positive relationships between low cost strategy and the financial and social performance of MFIs. The result shows that the low cost strategy does not only influence the financial performance of MFIs but also social performance as well. The implication is that, managers that focus on the practice oflow cost strategy in their microfinance institution will not only able to increase their financial performance but social performance as well.**

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

I. INTRODUCTION

The interest and adoption of strategic management practices among organisation has witnessed growth over the years. Since it was first introduced, the concept of business strategy has gain acceptance not only as an important component of strategic management process, but also as good business practice among business organisations. The emphasis on business strategy resulted from evidence that suggests its adoption can help organisations to not only improve their performance but sustain their success as well.

Business strategy plays a vital role in determining the long term success of organizations. Over the years, business strategy as an area 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.

Organizations formulate and implement their business strategy through the strategic management process. With regard to the strategic management process, organizations need to develop and implement effective business strategy based on their capabilities and competitive advantage.

Despite the importance of business strategy to organizations and the increase knowledge in this area of management, there is still one segment of the business strategy that has been neglected. Surprisingly, little research exists that investigate low cost strategy in MFIs. In particular, research on low cost strategy in MFIs from the Nigeria perspective has been ignored. As a whole, the review of the past studies indicates previous research mainly focused on examining business strategy in firms that operated in selected institutions such as commercial banking and retailing businesses.

Based on this information and research gaps, this paper attempts to investigate the influence of business strategy onthe performance of MFIs in Nigeria. The paper is presented in five sections. The following Section Two is literature review. Next, Section Three is research methodology, Section Four present the results of the analyses, Finally, Section Five presents discussion conclusion of the paper.

II. LITERATURE REVIEW

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.

Over the decades, various definitions of business strategy have been proposed and documented in the strategic management literature. However in general, business strategy has been considered as the way in which a firm achieves its organizational objectives through maintaining its competitive advantage as well as competitive position in a particular

industry (Hashim, 2008; Ibrahim & Primiana, 2015; Kamukama et al., 2011; Nkundabanyanga et al., 2017).

Furthermore, 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.

With regard to the three types of strategy, the review of past research suggests that previous studies that examined the relationship between strategy and organizational performance have mainly focused on business strategy (J. Lee, 1988). Moreover, findings of previous empirical research on the relationship between business strategy and performance of firms provided strong evidence that suggest business strategy are associated to the performance of these firms (Ansoff, 1984; Hofer & Schendel, 1978; Lee & Mowday, 1987; Linton & Kask, 2017; Oyewobi et al., 2016; Soltanizadeh et al., 2016; Yuliansyah et al., 2017).

Findings of prior research also revealed that previous studies on business strategy have largely concentrated on certain type of large firms. However, more recent evidence from the literature suggests that business strategies are also relevant and applicable to other types of organizations as well. More importantly, more recent studies indicate that different organizations operating in different business environment should adopt different types of business strategy (Homaid, Zain, Al-matari, Minai, & Ahmad, 2017; Leinwand, Mainardi, & Kleiner, 2016; Reeves, Haanaes, & Sinha, 2015; Rumelt, 2013; Soltanizadeh et al., 2016).

In earlier studies byPorter (1980), 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.

Furthermore, 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.

More recently, the studies by Hashim and Ahmad(2009), 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.

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. In addition, findings of previous indicate the existence of the relationship between strategy and organizational performance.

III. RESEARCH METHODOLOGY

This study used all the MFIs that are license to operate the business of microcredit in Nigeria as its sample. According to the Central Bank of Nigeria (CBN) Directory, These MFIs are currently 872 in Nigeria. The 872 MFIs are located in 37 states of Nigeria. The MFIs ownership involved are; the Community Bank MFIs, the Private MFIs, the Government MFIs, the NGO MFIs, and the Foreign 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 attempted to collect information regarding the features of the MFIs. Section three has 113 items that focuses on the management practices of the MFIs. Four items were used to measuring the performance of the MFIs. Two of four items measure financial performance and the remaining two items measure social performance. The data for measuring the performance was collected for over a period of three years.The low cost strategy were rated by using a five numerical scale ranging from "Strongly disagreed" (1) to "Strongly Agreed" (5).

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scale ranging from "Strongly disagreed" (1) to "Strongly Agreed" (5).

This study used the Least Squares Structural Modeling (PLS-SEM) to analyze the data collected as well as to test the hypotheses of the study. The first part of the data analysis involved descriptive statistics. This involves determining the percentages, means, modes, standard deviations, minimum and maximum value of the items used in collecting the data for the study. In the second part, the partial least squares (PLS) regression modeling was used for testing the research hypotheses. The PLS analyses used in this study involves the assessment of measurement as well as the structural models. The following section briefly describes the statistical procedures used in this study.

In the PLS regression analysis, assessment of measurement model was required for testing hypotheses. The assessment of measurement model in this study involves examining the individual item reliability, ascertaining internal consistency reliability, ascertaining convergent validity as well as discriminant validity. More specifically, this method was employed for testing the reliability and validity of the items and the focal variables used in this study.

In assessment model, the results achieved the loading of all items to be greater than 0.70 and the composite reliability value (CRV) of all constructs are greater than 0.70. The Average Variance Extracted (AVE) values of all constructs are also greater than 0.50. The Composite Reliability (CR) values greater than 0.7.Taken together, these results statistically fulfilled the convergent validity criteria recommended by Hair (2011). In addition, The Cronbach's Alpha scores of all the items are higher than 0.70 these results also suggest the reliability of the measures used in the study.Having ascertained the measurement model, the study also assesses the structural model which applied 5000 bootstrap samples and 121 cases as required by the standard bootstrapping technique (Hair, Hult, Ringle and Sarstedt, 2014).

IV. THE RESULTS

Descriptive of the Respondents

Of the 121 respondents, 58 were General Managers, another 47 were Senior Managers and the remaining 16 were Managing Directors and Chief Executive Officers. Table 4.1 presents the profile of the 121 respondents that participated in the study. As shown in table 4.1, of the total of 121 respondents, 90 respondents (74.4 percent) were male and the remaining 31 (25.6 percent) were female.

As shown in table 4.1, of the 121 respondents, 52 respondents (43 percent) were between the age of 30 and 40 years old, another 52 respondents were between 41 to 50 years old and

the remaining 17 respondents (14 percent) were between 51 and 60 years old. With regard to their ethnicity, 25 respondents (20.7 percent) were from the Hausa tribe, another 44 respondents (36.4 percent) represented the Yoruba tribe, the other 28 respondents (23.1 percent) were members of the Igbo tribe and the remaining 24 respondents (19.8 percent) represented the other minority tribes. As for their education levels, 51 respondents had a bachelor degree, another 41 had master degree and the remaining 29 respondents had diploma or national certificate of education.

Of the 121 respondents from the MFIs, 7 respondents (5.8 percent) have duration of less than 1 year in the company, 41 respondents (33.9 percent) are between 1-3 years period in the company, 58 respondents (47.9 percent) have 4-5 years of experience in the company, and 15 respondents (12.4 percent) were in their durations of 6-7 years in the company.

Table 4.1 Profile of the respondents

Profile	Frequency	Percentage
Gender:		
Male	90	74.4
Female	31	25.6
Age:		
30-40 years	52	43
41-50 years	52	43
51-60 years	17	14
Ethnic:		
Hausa	25	20.7
Yoruba	44	36.4
Igbo	28	23.1
Other tribes	24	19.8
Level of Education:		
Masters	41	33.9
Bachelor	51	42.1
Diploma/NCE	29	24

Reliability and Validity of the Research Variables

For the PLS data analyses to be carry out it is necessary to ascertain the measurement model. Table below shows the Average Variance Extracted (AVE) values of all constructs are greater than 0.50, the Composite Reliability should be more than0.7,Cronbachs Alpha should be more than 0.7. In addition, the factor loading of all individual items are greater than 0.4. Taken together, these results statistically fulfilled the measurement model requirement criteria recommended by Hair et al. (2011). Table 2 shows the result of AVE, Composite Reliability, R square and CronbachsAlph.

Table 2 Composite Reliability, R square and CronbachsAlph.

	AVE	Composite Reliability	R Square	Cronbachs Alpha
FP	0.7184	0.9269	0.1275	0.9003
LCS	0.8435	0.9742	0.0000	0.9690
SP	0.6637	0.9050	0.1563	0.8604

Hypotheses Testing

Table 3 below presents the regression results between the low cost strategy and the performance of the MFIs that participated in the study. The results indicate that there were positive significant relationship betweenlow cost strategy and financial performance and non-financial performance as (β = 0.098, t = 11.9, p <0.000) and (β = 0.014, t = 13.7, p <0.000) respectively.

Table 3 Regression Analyses between Low Cost Strategy and Performance

Hypothesis	Beta	Standard Error	T-Statistics	P-Value	Decision
H1: LCS -> FP	0.357	0.098	11.9***	0.000	Supported
H2: LCS-> NP	0.395	0.014	13.7***	0.000	Supported

Note: ***P<0.01, **P<0.05, *P<0.1

The result of the regression analyses between low cost strategyand financial and non-financial performanceappears to provide some support for the hypotheses that the greater the practices of the low cost strategythe high will bethe financial and non-financial performance.

V. DISCUSSION AND CONCLUSIONS

This study attempted to examine the relationshipbetween low cost strategy and performance of MFIs. At general level, the result of the regression analyses as presented indicates significant positive relationship between low cost strategyand financial and non-financial performance of the MFIs. The result of this study provides some empirical evidence that suggest positive relationships exists between low cost strategy and financial and non-financial performanceMFIs.

The results of this study support findings of early studies that by Porter (1980), Lee(1988), Gulati (1998), and more recent studies by Yuliansyah, Gurd, and Mohamed(2017), (Zakaria, Hashim and Ahmad (2016), and Auka and Langat (2016). The findings of the study further appear to correspond with the general view presented in the literature that suggests the connection between strategic management practices and organisational performance. The result of the study seems to demonstrate that the practice of low cost strategy in MFIswill not only be to improve their financial performance but also to increase its non financial performance as well.

This study offers implications for owners and managers of MFIs. The study is able to demonstrate that the low cost strategic practice improves the performance of MFIs. More specifically, the low cost strategic practices are lower charges for interest rate on loans, lower charge for fee on services (funds transfers, ATMs), utilizing computer to minimize operating costs, offering specific financial products at lower interest rate, developing image as provider of cheapest financial products, outsourcing some tasks in order to lower costs, provide products cheaper than competitors, targeting customers who are sensitive to interest rate, providing financial products more efficiently than competitors, targeting mass market, tighten cost and overhead control. These practices are relevant and applicable to the MFIs in Nigeria. Managers of MFIs that focus on theselow cost strategy practices in their MFIs will not only able to increase their financial performance but non-financial performance as well.

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