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STRATEGIC MANAGEMENT DETERMINANTS OF CORPORATE GROWTH IN SELECTED MICRO-FINANCE INSTITUTIONS IN KENYA

BY

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DEDICATION

This study is dedicated to the Almighty God; the source of knowledge and wisdom. His grace and internal strength enabled me to persistently carry on this study. This study is also dedicated to my dear family.

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Thank you all, and may God bless you.

ABSTRACT

The main purpose of this study is to assess the strategic management determinants of corporate growth of Microfinance Institutions (MFIs) in Kenya. The specific objectives of the study will be; to assess the effects of grand strategy on the growth of MFIs in Kenya; to assess the effects of corporate vision on the growth of MFIs in Kenya; to establish the effects of cost leadership strategy on the growth of MFIs in Kenya; to evaluate the effects of product differentiation strategy on the growth of MFIs in Kenya; to establish the effects of pooling of strategic resources on the growth of MFIs in Kenya; and to assess the effects of strategic synergy on the growth of MFIs in Kenya. The depended variable is corporate growth which will be measured by corporate profitability, market share, entry of new customers, rate of loan recovery, branch network, number of employees, and social impact.

The research scope will be the MFIs which have operations in Mombasa County and which are five years of age and above as at 31st December, 2012 and their regulators (AMFI and CBK). Five years is a period enough to establish a stable growth pattern for MFIs. Descriptive and quantitative research designs will be employed. In a population of 57 firms, 32 will be studied. Both stratified sampling and purposive sampling methods will be used to identify the sample size. Stratified sampling method will assist in categorizing the population into four categories, and subsequently

purposive sampling technique will then be engaged to assist the researcher to identify the sample MFIs with specific characteristics under study. The primary data collection instruments will be structured and semi structured questionnaires on strategic management determinants. Secondary data collection will involve data mining from company records.
Pilot testing will be conducted in four MFIs in Mombasa CBD to test the data instruments. Cron-bach alpha tool will be employed in testing the data reliability and validity. If the calculated value will be 7.0 and above, the internal consistency will be strong, thus acceptable. Data Triangulation will be deployed to triangulate responses from the MFIs, the regulators and the data mined from company records. Data will be analyzed using SPSS version 20. The hypothesis will be tested using t-test at 95% confidence level. The Tobit Model will be deployed to estimate the final linear relationship between strategic management determinants and corporate growth. Data will be presented in tables, graphs and pie charts.

DEFINITION OF TERMS

Competitive Positioning	Exploitation of core competencies to gain a competitive advantage and maintain it. It is the ability gained through attributes and resources to perform at a higher level than others in the same market or industry (Hitt, *et. al*. 2009).
Corporate Growth	Change in size or magnitude of a firm from one period of time to another. Marked and sustainable increase in assets, market share, profitability, customer base, branch network, capital base, and social impact (Thomas *et. al*., 2006).
Corporate Profitability	An economic indicator that calculates net income using profits from current production, book profits and after-tax profits (Delmar, 2006).
Corporate Strategy	It is the grand plan, ploy to win. It refers to the overarching strategy of the firm (Ansoff & MCDonald, 2003).
Corporate Vision	An aspiration description of what an organization would like to achieve or accomplish in the long-term future. It is intended to serves as a clear guide for choosing current and future courses of action (Hill & Jones, 2009).
Cost Leadership Strategy	Achieving the lowest cost of operation in the industry to gain competitive advantage. Often driven by company efficiency, size, scale, scope and cumulative experience (Porter, 2004).
Cronbach Alpha	Coefficient of internal consistency. An estimate of the reliability of a psychometric test for a sample of examinees (Eisinga, *et. al.* 2013).
Grand Strategy	General term for a broad statement of strategic action. States the means that will be used to achieve long-term objectives (Gaddis, 2005).
Loan Recovery	Rate of collection of loan amount due from a borrower (Alleire, *et. al.* 2009).
Market Share	Portion of a market controlled by a particular brand, product or company expressed as a percentage (Coad, 2009).
New Customer	Individual or business that for the first time purchases the goods or services produced by a business (Porter, 2008).
Product Differentiation Strategy	Strategy employed to distinguish and increase the perceived value of brand or products to entice buyers against competitors' products. Achieved through competitive pricing, functional designs, features, distribution, brand reputation, product customization, and enhanced customer support (Johnson *et. al., 2008*).
Strategic Management	Major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments (Hill & Jones, 2009).
Strategic Partnerships	Long term partnering of firms in industry by pooling of resources together for mutual benefit. It is an arrangement between two companies that have decided to share resources to undertake a specific, mutually beneficial project (Hitt *et. al*., 2009).
Strategic Resources	Bundle of valuable interchangeable and intangible and tangible resources at the firm's disposal that builds a firms competitive advantage in industry (Crook, *et. al*., 2008).
Strategic Synergy	hoped-for or real effect resulting from different individuals, departments, or companies working together and stimulating new ideas that result in greater productivity (Grant, 2008).
Tobit Model	Is a censored regression model designed to estimate linear relationships between variables when there is either left- or right or below and above censoring in the dependent variable (Schnedler, 2005).

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The growth of firms is something inherent to their actual existence. Throughout their life, firms must grow continuously if they want to sustain their competitive position within an environment where other rival firms may be growing at a faster pace (Johnson *et. al.,* 2008; Kazmi, 2002). While some surveys show that growth is not an objective for all firms, the ability of firms to grow is important, because it has been suggested that firms with low or negative growth rates are more likely to fail (Headd & Kirchhoff, 2007). What is perhaps more controversial and surprising is that recent evidence suggests that the high growth firms are not necessarily newly founded entrepreneurial startups, but rather tend to be larger and more mature firms (Honjo & Haranda 2006; Coad, 2009).

The strategic orientation of a firm is its tendency towards valuing and prioritizing certain strategically relevant actions rather than others. A firm could emphasize activities that drive down its costs, respond aggressively to competitors, seek to provide maximal customer value, or seek to speed up the pace of technological innovations. Any of these thrusts, and many others, could potentially result in favorable outcomes such as corporate growth (McKelvie & Wiklund, 2010; Cressy, 2009). Based on this, researchers have considered the performance effects of strategic orientation construed in terms of Porter's (1980) generic strategies to explain the choice of strategies to adopt for growth and sustainability thus creating competitive advantage.

Thomas, *et. al.*, (2006) assert that although corporate profitability measures generally rise with earnings and sales growth, an optimal point exists beyond which further growth and sales growth destroys shareholder value. They note that many firms go beyond this optimal point and conclude that corporate managers need to abandon the habit of blindly increasing company size. In today's world of cutthroat competition, corporate growth is an ambiguous phenomena and it can be measured and interpreted in a variety of different ways. Corporate growth reflects the degree of success achieved in terms of stated objectives and as the objectives differ widely so does the concept of corporate growth (Aggarwal, 2012).

McGrath, *et. al.,* (2000) suggest that companies need to achieve a strategic balance between top and bottom line growth. The strongest companies are those that recognize and understand the importance of both innovation and improvement. These companies never stop growing and are the true value growers. Canals (2000) developed an integrative model of corporate growth explaining the nature of the factors influencing corporate growth. These are: the firm's internal and external context, the development of a business concept, resources and capabilities, and the strategic investment decisions. Roberts (2004) pointed out that growth of corporations is influenced by three major factors – the background/resource of the entrepreneur, the nature of the firm, and the strategic decisions taken by the owner/manager. The top management needs to develop both strategic and tactical skills and abilities. High growth firms make use of external relations (Lechner, *et. al.,* 2006) and growth is a combination of environmental and leadership processes (Eisenhardt & Schoonhoven, 2002).

Nevertheless, if a firm wishes to improve its relative position, then it will have to grow faster. In short, enterprises must seek continuous growth with the aim of increasing or simply maintaining their sales and profit levels, so that their survival can be guaranteed. However, this does not mean that the growth of firms takes place in an unplanned way; it actually occurs in a premeditated, organized way and is the fruit of conscious strategic decisions taken by a firm in the ever-changing business environment (Baum & Wally 2003). Corporate growth is the responsibility of the top managers who must concentrate on strategic planning and allocation of resources with the objective of pursuing organizational efficiency.

Corporate growth is often closely associated with firm overall success and survival and it has been used as a simple measure of success in business. Storey, (1994) suggested that growth is the most appropriate indicator of the performance for surviving corporations. Moreover, corporate growth is an important precondition for the achievement of other financial goals of business (Coad, 2009). From the point of view of corporations, growth is usually a critical precondition for its longevity. Cressy, (2009) notes that young firms that grow have twice the probability of survival as young non-growing firms. It has been also found that strong growth may reduce the firm's profitability temporarily, but increase it in the long run (McDougall, *et. al*., 2006). It is worth noting that corporate growth is essential for sustaining the viability, dynamism and value-enhancing capability of firms. A growth-oriented firm is not only able to attract the most talented executives but it would also be able to retain them. Corporate growth leads to higher profits and increase in shareholders' value. Greiner (1998) pointed out that growth in corporations is a predetermined series of evolution and revolution attributes. However, for growth to be realized and be sustainable, the combination of resources, distinctive capabilities, distinctive competencies, and attributes must lead to competitive advantage thus outperforming competitors. This is the basis of value creation that when sustained, leads to competitive positioning. Sustained competitive positioning leads to corporate growth.

After independence in 1963, Kenya promoted rapid economic growth through public and private investment. The Gross Domestic Product (GDP) grew at an annual average of 6.6% from 1963 to 1973. Kenya's economic performance during the 1980s and 1990s was far below its potential, as was corporate growth. The economy grew by an annual average of 1.5% between 1997 and 2002, which was below the population growth rate estimated at 2.5% per annum, leading to a decline in per capita incomes. Increased government intrusion into the private sector and import substitution policies made the manufacturing sector uncompetitive and unproductive. Declining growth, retarded growth and in some cases corporate demise was registered (GoK, 2010; Kipruto, 2012). Muia, (2011) found out that firms can be encouraged to embrace growth strategy especially when pursuing the profitability and wealth objectives. Africa and particularly in Kenya, microfinance remains primarily a supply-driven endeavor with a marginal number of methodologies applied mainly to provide working capital loans to micro entrepreneurs, and businessmen (GoK, 2010, Mwobobia, 2012). However, the Kenyan microfinance industry is facing challenges that have affected the growth patterns of the MFIs.

1.2 Statement of the Problem

Although the concept of microfinance has been present in Kenya for over twenty years, the sector has fallen short on achieving widespread growth and sustainability. The main goal of every MFI is to operate profitably in order to maintain its stability and improve growth and sustainability. However this is not always achieved (Hitt, *et. al.,* 2009). The micro finance sector in Kenya faces a number of constraints that need to be addressed to enable them to improve outreach, growth and sustainability. These constraints have contributed to a large extent to the poor performance and eventual demise of some MFIs. For if MFIs are not profitable, growth remains a dream, thus unsustainable. A key justification for the advancement of microfinance is that, a microfinance sector that is both profitable and sustainable can ultimately impact positively on economic growth and development; this is sufficiently lacking. Although some progress has been made, the problem has not been solved yet, and the overwhelming majority of people, especially in the rural areas, continue to have no practical access to formal sector finance as most MFIs concentrate on urban clientele (Kipruto, 2012).

Great effort has been devoted to studying the general determinants of growth of firms with theoretical frameworks of firm formation and growth being formulated, though few have been tested extensively (Davidsson *et. al.*, 2002). The most recognized and empirically tested theory of firm growth is probably Gibrat's law that theorizes that the size of the firm at any given point in time is the product of a series of random growth rates in the history of the firm. In other words, the growth of a firm in any given period of time is independent of the size of the firm at the beginning of the period. Most of the previous work found in literature refers to determinants of firm growth in developed countries (Evangelia & Bassima, 2002; Hermelo & Vossolo 2007; Vanroose, 2010; Alaire *et. al.*, 2009). This is evidence that determinants of corporate growth have been a subject of considerable research in developed economies with little evidence for emerging economies. While a significant amount of research has been done on the determinants of growth in large firms, much less is known in regard to MFIs, especially in developing economies, given that their growth and prosperity is potentially subjected to different constraints and contingencies related to their specificity as business organizations (Raymond *et. al.*, 2005).

Greiner (1998) asserts that growth in firms takes place in series of steps and phases of evolution and revolution. However, the basis and determinants of growth remain heterogeneous. Most important to note is that academics, management experts and governments in many countries have been keen to discover ways in which corporate growth can be encouraged. It is therefore important to find out what are the strategic management determinants of corporate growth, and, conversely, what constraints prevent corporate growth? Several studies have been conducted on determinants of corporate growth of firms over time. Hermelo & Vossolo, (2007) found out that technology, diversification and productivity increases corporate growth in Ethiopia. Mengistie, (2012) established that labor quality, asset, productivity, and leverage positively affect growth. Mulunga, (2010), found out that lack of regulatory and policy framework, lack of capital and high operational costs negatively affected the growth of MFIs in Namibia. Alleire, *et. al.*, (2009) identified cultural, institutional, economic, geographic and legal framework as factors that foster the growth of MIFs. Bigsten & Gebreeyesus, (2011) examined the relationships between firm growth and firm size, age, and labor productivity.

Mwobobia, (2012) identified lack of finance, discrimination, problems with the city council, multiple duties, poor access to justice, and lack of education as negatively affecting corporate growth. Muia, (2011) identified profitability, industry concentration, sales growth, stock market index, and Gross Domestic Product growth as the major factors influencing growth of firms in Kenya. Maina, (2011) found out that information technology, funds, technical skills and market research positively affect growth of MFIs. Namusonge, (2010) identified strategies used by businesses during the growth process, and identified barriers and incidents which facilitate or hinder the growth of Small and Micro Enterprises during the growth process.

Further studies attempt to link determinants of growth from different perspectives or dimensions. Baum & Wally (2003); Davidsson, *et. al.*, (2006), found out that their explanatory power is low due to the relatively small number of variables. It is therefore of special interest to examine the determinants of firm growth in an integrated way, and to identify the most important determinants of firm growth. Much research effort has been targeted particularly at investigating the factors affecting firm growth, but to date there is no comprehensive theory to explain which firms will grow or how they will grow (Garnsey & Heffernan, 2011). It seems that not even very strong explanatory factors have been identified, though various explanatory approaches have been presented. These studies, though very important to the industry players, fell short in identifying the strategic management determinants of corporate growth. Thus, there is a compelling need to explore the strategic management determinants of corporate growth in Kenya that can successfully propel firms to growth, sustainability, and prosperity.

1.3 Research Objectives

1.31 General Objective

The general objective of the study will be to establish the strategic management determinants of corporate growth of Micro Finance Institutions in Kenya.

1.3.2 Specific Objectives

The specific objectives of the study will be;

a. To assess the effects of grand strategy on the growth of Micro Finance Institutions in Kenya
b. To find out the effects of corporate vision on the growth of Micro Finance Institutions in Kenya
c. To establish the effects of cost leadership strategy on the growth of Micro Finance Institutions in Kenya
d. To evaluate the effects of product differentiation strategy on the growth of Micro Finance Institutions in Kenya
e. To establish the effects of pooling of strategic resources on the growth of Micro Finance Institutions in Kenya
f. To assess the effects of strategic synergy on the growth of Micro Finance Institutions in Kenya.

1.4 Research Questions

In order to understand how the objectives of this study will be achieved, the following research questions will be deployed;

a. Does grand strategy affect the growth of Micro Finance Institutions in Kenya?
b. How does corporate vision affect the growth of Micro Finance Institutions in Kenya?
c. How does cost leadership strategy affect the growth of Micro Finance Institutions in Kenya?
d. Does product differentiation strategy affect the growth of Micro Finance Institutions in Kenya?
e. What is the effect of pooling of strategic resources on the growth of Micro Finance Institutions in Kenya?
f. How effective is strategic synergy on the growth of Micro Finance Institutions in Kenya?

1.5 Research Hypotheses

The null hypotheses (Ho) to be tested in this study are the following;

Ho1: Grand strategy does not significantly affect the growth of Micro Finance Institutions in Kenya
Ho2: Corporate vision does not significantly affect the growth of Micro Finance Institutions in Kenya.
Ho3: Cost leadership strategy does not significantly affect the growth of Micro Finance Institutions in Kenya.
Ho4: Product differentiation strategy does not significantly affect the growth of Micro Finance Institutions in Kenya
Ho5: Pooling of strategic resources does not significantly affect the growth of Micro Finance Institutions in Kenya
Ho6: Strategic synergy does not significantly affect the growth of Micro Finance Institutions in Kenya

1.6 Significance and Justification of the Study

This study is very important and essential to MFIs, policy makers, scholars and researchers, and the community.

1.6.1.1 Microfinance Institutions

This study will help MFIs to wisely intervene in improving their performance by assisting in tackling those factors that inhabit corporate growth and helping them to embrace and deploy those factors that positively facilitate corporate growth. This will lead to MFIs growth, sustainability and productivity. Given the chance in successful corporate growth, the strategic management determinants of growth would reduce managerial uncertainty in corporations. MFIs have an overwhelmingly dominant position in developing-economy financial systems, and are extremely important engines of economic growth (Maina, 2011). Moreso, with little formal sector (bank) financing, MFIs are typically the most important and affordable source of finance for the majority of firms and as such they are usually the main depository for the economy's savings.

1.6.1.2 Policy Makers

This study will help the government, MFI regulators and policy Makers in formulating and executing suitable operational guidelines, policy mechanisms and strategic interventions that would improve the capacity of this sector. A sustainable sector will contribute directly to national growth and development, with the government being a key beneficiary.

1.6.1.3 Scholars and Researchers

This study is a source of more valuable insight and information on the subject of corporate growth of MFIs in Kenya. It will open up space for more research on the subject of corporate growth of firms in Kenya.

1.6.1.4 The Community

A successful MFIs sector contributes to financial deepening and financial empowerment of the community. Through savings education and business skills education, they contribute to increased marginal propensity to save and invest for the common business in both urban and rural regions. Still, MFIs have managed to account to a considerable share of the employment created both in the rural and urban community.

1.6.2 Justification of Study

Although the concept of microfinance has been present in Kenya for over twenty years, the sector has fallen short on achieving widespread growth and sustainability. The microfinance sector in Kenya has faced a number of constraints that need to be addressed to enable them to improve outreach, growth and sustainability (Kipruto, 2012). While a significant amount of research has been done on the determinants of growth in large firms, much less is known in regard to MFIs, especially in developing economies. Further, though the strategic management determinants of corporate growth are general and universal, they can be applied within any other industry or defined geographical region. In other words, the determinants can be standardized for any industry or region, though they may differ from one industry and or region to another (Raymond *et. al.,* 2005).

1.7 Scope of the Study

GoK (2006) under the Microfinance Act, MFIs in Kenya are classified and registered into micro financing banks, non deposit taking MFIs, deposit taking MFIs (DTM) and informal organizations supervised by an external agency other than the government. This study will focus on the micro financing banks, the deposit taking and non deposit taking MFIs which have operations in Mombasa County and are five years of age and above as per AMFI records as at 31^{st} December, 2012. Mombasa County is a cosmopolitan region which represents a substantial chunk of the microfinance industry. The researcher believes that MFIs over five years of age have key information about strategic management determinants of growth due to their exposure and experience.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the literature review of the study and explains the empirical studies on the strategic management determinants of corporate growth. It covers the theoretical frame work, the conceptual framework, a review of the determinants, measurement of corporate growth, critique of existing literature, research gaps and summary of literature review.

2.2 Theoretical Framework

The theoretical framework explains the theoretical basis of a study. In this study, the Generic Strategy Theory (Porter, 1980), Competitive Advantage Theory (Porter, 2004), The Resource Dependency Theory (Davis & Cobb, 2010) and the Organizational Growth Model (Greiner, 1998) have been identified.

2.2.1 The Generic Strategy Theory

Porter (1980) identified the generic strategy theory that has since become a game changer in the world all over in building firms' industry competitiveness which in turn leads to corporate growth. This theory consists of cost leadership, differentiation and focus strategies. Cost-leadership strategies require firms to develop policies aimed at becoming and remaining the lowest cost producer and/or distributor in the industry. A cost leadership firm can set prices at par with competitors thus enjoy big margins or set prices lower than competitors and experience high sales hence high margins. Cost leadership concentrates on construction of efficient-scale facilities, tight cost and overhead control, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs (Johnson, *et. al.,* 2008).

Differentiation strategy requires firms to create something about its product that is perceived as unique within its market. Whether the features are real, or just in the mind of the customer, customers must perceive the product as having desirable features not commonly found in competing products. The customers also must be relatively price-insensitive. Customers must be willing to pay more than the marginal cost of adding the differentiating feature if a differentiation strategy is to succeed. Possible differentiation strategies include warranty, brand image, technology, features, service, and dealer network among other dimensions. Differentiation does not allow a firm to ignore costs; it makes a firm's products less susceptible to cost pressures from competitors because customers see the product as unique and are willing to pay extra to have the product with the desirable features (Hill & Jones, 2009)

Porter (1980) notes that focus strategy involves concentrating on a particular customer, product line, geographical area, channel of distribution, stage in the production process, or market niche. The underlying premise of the focus strategy is that the firm is better able to serve its limited segment than competitors serving a broader range of customers. Firms using a focus strategy simply apply a cost-leader or differentiation strategy to a segment of the larger market. Firms may thus be able to differentiate themselves based on meeting customer needs through differentiation or through low costs and competitive pricing for specialty goods (Thomas *et. al*, 2006).

2.2.2 Competitive Advantage Theory (Porter, 2004)

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel and human resources. The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter, 2004; Johnson *et. al.,* 2008). A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player (Hill & Jones, 2009). Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Porter, 2008). To gain competitive advantage the firm manipulates the various resources and capabilities over which it has direct control and these resources have the ability to generate competitive advantage (Thomas, *et. al.*, 2006). Superior performance outcomes and superiority in production resources reflects competitive advantage (Lau & Busenetiz, 2001).

Van Duren, (2005) views business strategy as the tools that manipulate the resources and create competitive advantage, hence, viable business strategy may not be adequate unless it possess control over unique assets, resources and capabilities that have the ability to create such a unique advantage. Competitive advantage is a key determinant of superior performance and it ensures survival and prominent positioning in the market. Superior performance being the ultimate desired goal of a firm, competitive advantage becomes the foundation highlighting the significant importance to develop same (Porter & Kramer, 2006).

2.2.3 The Resource Dependency Theory (Davis & Cobb, 2010).

The resource dependency theory is important in explaining the actions of organizations, by forming interlocks, alliances, joint ventures, and mergers and acquisitions, in striving to overcome dependencies and improve an organizational autonomy, legitimacy and competitiveness. It is instrumental to organizations on the power to control resource allocation as the key to organizational growth and survival. The theory's central proposition is that organizations will try to manage their resource dependencies with a variety of tactics, such as the cooptation of sources of constraint, in order to achieve greater autonomy and thus reduce uncertainty in the flow of needed resources from the environment. In essence, strategic partnerships have the potential to address challenges and opportunities that could not have been handled in the same way outside of a partnership (Davis & Cobb, 2010).

Perceived mutual dependencies between organizations can motivate potential partners to come together and join forces when the organizations perceive critical strategic interdependencies with other organizations in their environment (Drees & Heugens 2013). Interdependence causes uncertainty in managing necessary resources for organizational survival and drives organizations to seek complementary or supplementary capabilities and resources in others. Because organizations are not self sufficient and do not have control over all the resources they require, interaction with others is necessary to advance one's own interests. Thus, organizational outcomes are based on interdependencies, because interdependence exists whenever one actor does not entirely control all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action. This means that a partnership within organizations is a way of gaining access to critical resources necessary for their own success and survival.

When an organization does not have the necessary resources internally, it is dependent on external actors who have these needed resources. These resources can include financial resources, technical capabilities, knowledge, and organizational legitimacy. Companies and organizations could address these issues strategically in a partnership by using other organizations to fill their core needs. The main rationale for creating strategic partnerships is the potential for value creation through pooling organizations' resources together. In essence, the procurement of external resources is an important tenet of both the strategic and tactical management of any company (Hillman, *et. al.* 2009).

2.2.4 Organizational Growth Theory (Greiner, 1998).

Greiner (1998) proposed a growth model that explained the growth in business organizations as a predetermined series of evolution and revolution. In order to grow, the organization is supposed to pass through a series of identifiable phases or stages of development and crisis. These phases are; growth through creativity, growth through direction, growth through delegation, growth through collaboration and growth through coordination. Greiner's model suggests how organizations grow, but the basic reasons behind the growth process and its mechanics remain heterogeneous. However, worth noting is that in corporations, the importation of materials and energy from the environment not only sustains life but also contributes to growth. As they keep growing, so does their ability to acquire resources. This means that the more they grow, the more capacity in resources acquisition they have and the more resources they can access. This growth and the increase in resource acquisition capabilities provide a positive feedback loop, which continues until the organization matures (Schimke, 2011).

If the resources in a niche or a domain are abundant, a business organization in that niche is likely to run at a profit (provided that the relevant costs are under control), which results in an improvement in return on investment (ROI), which tends to attract more funds from the investors. The firm can use these funds to reinvest for expansion, to gain more market control, and make even more profit. This positive feedback will continue until limiting factors (e.g. an increase in competition or the depletion of resources within a particular niche) take effect (Ansoff & Mc Donald, 2003).

2.3 Conceptual Framework

The conceptual framework is derived from the theoretical framework of this study. It is derived from the generic strategy theory, (Porter 1980), Competitive Advantage Theory (Porter, 2004), The Resource Dependency Theory (Davis & Cobb, 2010) and The Organizational Growth Theory, (Greiner, 1998). The independent variables of the study will be grand strategy, corporate vision, cost leadership strategy, product differentiation strategy, pooling of strategic resources and strategic synergy. The depended variable will be corporate growth. The relationship between the independent variable and the depended variable will be established by the regression model and the conceptual frame work of the study will be as shown below.

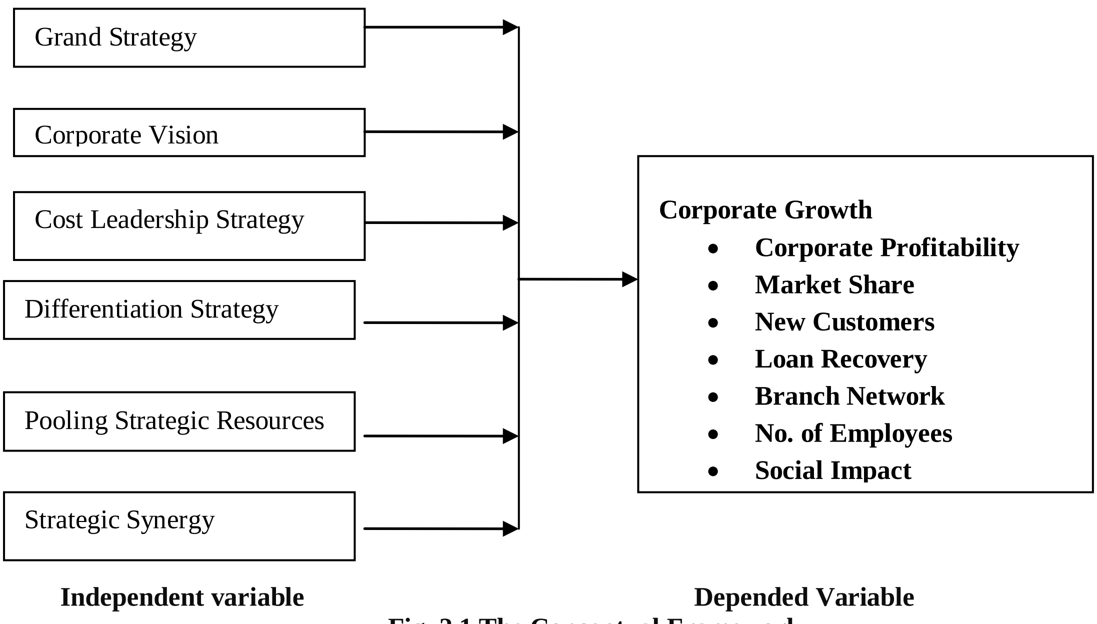

Fig. 2.1 The Conceptual Framework

2.4 Review of the Determinants of Corporate Growth

Determinants of Corporate Growth reviewed in the theoretical framework are; grand Strategy, corporate vision, cost leadership strategy, product differentiation strategy, pooling strategic resources and strategic synergy. These determinants explain at different angles and in different times the different opinions of other scholars about determinants of corporate growth.

2.4.1 Grand Strategy

Grand strategy helps to exercise the choice of direction that an organization adopts as a whole (Hill & Jones, 2009). It is primarily about the choice of the tactics and techniques for the firm as a whole and managing various product lines and business units for maximum value. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the marketplace, the corporation must coordinate these different business strategies so that the corporation as a whole succeeds as a "family" (Weinzimmer, 2000, Thomas, *et. al*, 2006). Grand strategy answers the questions of "in which businesses should we compete and how? and how does being in that business add to the competitive advantage of the firm's portfolio, as well as the competitive advantage of the corporation as a whole?

Grand strategy includes decisions regarding the flow of firm resources to and from a company's product lines and business units. Through a series of coordinating activities, a company transfers skills and capabilities developed in a one unit to other units that may need such resources. In this way, it attempts to obtain synergies among numerous product lines and business units so that the corporate whole is greater than the sum of its individual business unit parts. It is through competitive techniques and tactics this is achieved (Porter, 2008; Kutllovci, *et. al*., 2012). The role of grand strategy is to co-ordinate and direct all the resources of a firm towards the attainment of its goals and objectives and vision. It is a statement of strategic action. A grand strategy states the means that will be used to achieve long-term objectives. Examples of business grand strategies include; concentration strategy, market development strategy, expansion or growth strategy, product development strategy, innovation strategy, integration strategy, divestiture, liquidation strategy, stability strategy and retrenchment or divestment strategy whichever is overarching.

Just as every product or business unit must follow a business strategy to improve its competitive position, every corporation must decide its orientation towards growth by asking the following three questions: Should we expand, cut back, or continue our operations unchanged?, Should we concentrate our activities within our current industry or should we diversify into other industries?. If we want to grow and expand nationally and/or globally, should we do so through internal development or through external acquisitions, mergers, or strategic alliances? Firms choose expansion strategy when their perceptions of resource availability and past financial performance are both high (Hill & Jones, 2007).

At the core of grand strategy must be a clear logic of how the corporate objectives, will be achieved. Most of the strategic choices of successful corporations have a central economic logic that serves as the fulcrum for profit creation. Some of the major economic reasons for choosing a particular type grand strategy are: Exploiting operational economies and financial economies of scope, uncertainty avoidance and efficiency, possession of management skills that help create corporate advantage, overcoming the inefficiency in factor markets and long term profit potential of a business (Ansoff & McDonald, 2003).

2.4.2 Corporate Vision

Corporate vision serves as the framework for a roadmap and guides every aspect of business by describing what needs to be accomplished in order to continue achieving sustainable, quality growth. Corporate vision is an essential factor in building scalable organizations that last for the long haul and reveals how companies can stay their course, even as they grow. Growing companies require a vision-a precise idea of their raison d'etre, strategy and values that are both inspiring and concrete enough to guide corporate action. A company's vision should describe a future that is more attractive than the present, and its leaders should recognize that diverse viewpoints as debates are essential to vision development (Johnson *et. al.*, 2008). Corporate strategy unifies the organization through the corporate vision, which directly influences corporate growth (Thomas, *et. al.,* 2006).

2.4.3 Cost Leadership Strategy

A cost leadership strategy aims to exploit scale of production, well defined scope and other economies, producing highly standardized products, and using high technology. Firms that succeed in cost leadership often have the following internal strengths: Access to the capital required to make a significant investment in production assets, skill in designing products for efficient manufacturing, high level of expertise in manufacturing process engineering, and efficient distribution channels. To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals (Porter, 2004).

Cost leadership is often driven by company efficiency, size, scale, scope and cumulative experience (learning curve). To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. There are three main ways to achieve this; achieving a high asset turnover, achieving low direct and indirect operating costs and control over the supply/procurement chain to ensure low costs. The control over the supply/procurement chain aims at ensuring low costs. This could be achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory (Hill & Jones, 2009).

Sustained cost leadership strategy leads to competitive positioning (derived from sustained competitive advantage) while sustained competitive positioning leads to corporate growth. Porter (2004) outlines three conditions for the sustainability of competitive advantage: Hierarchy of source (durability and imitability), number of distinct sources and constant improvement and upgrading.

2.4.4 Product Differentiation Strategy

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Firms that succeed in a differentiation strategy often have critical internal strengths: Access to leading scientific research, highly skilled and creative product development team, strong sales team with the ability to successfully communicate the perceived strengths of the product and corporate reputation for quality and innovation (Hitt, *et. al.*, 2009).

A differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. These could include patents or other intellectual property, unique technical expertise, talented personnel, or innovative processes. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors (Johnson *et. al.*, 2008). Sustained product differentiation leads to competitive positioning that leads to corporate growth.

2.4.5 Pooling of Strategic Resources

Strategic partnering is an idea that is loosely used to describe anything from teamwork to strategic alliances to contractual partnerships. Therefore, it is the process of two or more entities coming together for the purpose of creating synergistic solutions to their mutual challenges (Hitt, *et al*., 2009). Through pooling of strategic resources, strategic partners are able to enter new markets with little investment, be more effective, drive cost benefits or leverage strengths, and be more competitive. Grant (2008) states that for complete strategies, as opposed to individual projects, creating option value means positioning the firm such that a wide array of opportunities become available. Firms taking advantage of strategic partnerships can utilize other company's strengths to make both firms stronger in the long run. Typically two companies form a strategic partnership when each possesses one or more business assets that will help the other, but that each respective other does not wish to develop internally. An organization might form partnerships with customers, suppliers or even competitors (Crook, *et. al.*, 2008). Partners may provide the strategic partnerships with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, intellectual property and organizational legitimacy (Luypaert, 2008). In essence, strategic partnerships have the potential to address challenges and opportunities that could not have been handled in the same way outside of a partnership (Davis & Cobb, 2010).

Perceived mutual dependencies between organizations can motivate potential partners to come together and join forces when the organizations perceive critical strategic interdependencies with other organizations in their environment (Drees, & Heugens 2013). Interdependence causes uncertainty in managing necessary resources for organizational survival and drives organizations to seek complementary or supplementary capabilities and resources in others. Because organizations are not self sufficient and do not have control over all the resources they require, interaction with others is necessary to advance one's own interests. This means that partnerships are ways of gaining access to critical resources necessary for their own success and survival. The main rationale for creating strategic partnerships is the potential for value creation through pooling organizations' resources together. In essence the procurement of external resources is an important tenet of both the strategic and tactical management of any company (Hillman, *et. al*. 2009). Presence of a large base of resources allows an organization to outlast competitors by practicing a differentiation strategy. An organization with greater resources can manage risk and sustain profits more easily than one with fewer resources. This provides the foundation for corporate growth.

2.4.6 Strategic Synergy

Strategic partnerships aim at amercing strategic synergy and creating synergistic solutions where each partner hopes that the benefits from the partnerships will be greater than those from individual efforts. The Strategic partnerships often involve technology transfer (access to knowledge and expertise), economic specialization, shared expenses and risk (Davis & Cobb, 2010). Strategic synergy describes the mutual benefits a business experiences by strategically organizing itself to maximize cooperation and innovation. In simple terms, a synergistic organization achieves more as a group than its parts could in isolation. Increasing synergy requires a careful analysis of your organization's current strategies to identify better ways of doing business. Eliminating structural redundancy and sharing successful strategies also increases synergy by identifying ways to streamline operations and allowing each partner to focus on being maximally efficient. In either case, the partners benefit from the synergistic connection in ways that neither could alone. It is this bundle of benefits that leads to corporate growth (Rigsbee, ed. 2000, Gaddis, 2005).

The basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable, rare, in imitable, inter-changeable and intangible assets, resources and capabilities at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf & Barney, 2003). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the firm's bundle of resources can assist the firm to sustain above average returns. It is this protection and sustainability of competitive advantage that brings in corporate growth (Porter & Kramer, 2008; Hitt *et. al*., 2009).

2.4.7 Measurement of Corporate Growth

Since firm growth is fundamentally a multidimensional phenomenon, researchers have used different growth measures for different forms of growth. Possible growth indicators include; assets, employment, market share, physical output, profits, stock market value and sales (Delmar *et. al*., 2003). However, the selection of growth indicator depends on the research question and the type of firms that are included in the sample (Davidsson *et. al.* 2002). The interpretation of growth metric also depends on the length of time over which it is measured and due to the possibility of the exit of a firm that may again make comparisons misleading. Since there is no one best measure of firm growth, researchers have advocated composite measures using multiple indicators to measure heterogeneity in firm growth. The two basic approaches commonly used in literature to measure firm growth are the absolute and relative growth. Absolute growth measures the absolute increase or decrease in numbers of firm size whereas relative growth measures the growth rate in percentage terms. The challenge is to develop better knowledge about the relative and combined effects of many predictors under different circumstances (Boom & Reenen, 2006; Delmar, 2006).

Using multiple measures help not only in providing a "big picture" of the empirical relationships but also allow comparisons with the earlier studies. Davidsson *et. al*., (2006) stated that growth can be measured with a range of different indicators, the most frequently suggested being sales, employment, assets, physical output, market share and profits. Growth metrics can further be divided into quantitative and qualitative measures. Quantitative measures include firm productivity, financial profitability, asset base, return on investment (ROI), percentage of market share, volume of sales, capital base, volume of loans disbursed, stock turnover and rate of new customers among others. Qualitative measures include customer service, social and environmental impact, financial deepening, and economic empowerment (Meyer, 2007). Both Quantitative and relative metrics of growth will be deployed for this study. Corporate growth will to be measured by corporate profitability, market share, new customers, rate of loan recovery, branch network, number of employees and social impact.

2.5 Empirical Review

Different theories have attempted to identify the main factors underlying firm growth. They can be divided into two main schools: the first addresses the influence of firm size and age on growth, while the second deals with the influence of variables such as strategy, organization and the characteristics of the firm's owners/managers. In the first theory, Gibrat's law hypothesized that growth is independent of size and that firm growth decreases with firm size and age. More empirical literature has suggested that firm growth is determined not only by the traditional characteristics of size and age but also by other firm-specific characteristics (Gibrat, 1931).

Gibrat in the stochastic model of firm growth, gave explanations of firm growth behavior. In his "law of Proportional effect", he laid out the principle that growth of firms is a random process and the expected increase in firm size is proportional to the current size of the firm. While there may be a large number of systematic factors affecting growth, collectively they exercise only a limited influence on firms' proportionate growth. Peteraf & Baney (203), theorisized the resource based view of firm growth. The resource based view considers the firm as a collection of resources and the focus is on the activities it can perform with those resources. They analyzed the process of growth in terms of the speed with which firms could accumulate and assimilate such resources, and the opportunities for further growth which arise when firm's internal resources are under used. Firm growth is dependent on the path taken by the organization and is an organizational outcome resulting from the combinations of firm specific resources, capabilities and routines (Coad, 2009). Thus, firms‟ resource characteristics were considered to lead to heterogeneity in the firm's performance. It can be understood that the differences in firm size (and hence firm growth) are due to the division between the objectives of control and ownership structures. When ownership is separate from firm control, the managers, who control the firm, tend to enhance the firm size to maximize their satisfaction instead of firm value. Thus, there are different types of firm behaviors which lead to different levels of performance and growth (Honjo & Harada, 2006).

Firm growth also depends on the prevailing macro-economic conditions and on the degree of concentration or competition in the industry. Zhou and Wit (2009) have studied the determinants of firm growth in an integrated way and classified the determinants into three dimensions: individual, organizational and environmental determinants. Firm growth is not static in nature. Firms grow in many different ways and the patterns of growth can vary significantly and have different causes (Delmar, *et al*., 2003). Research on firm growth has identified three major strategic choices for firm growth, viz., undertaking internal expansion, conducting Mergers & Acquisitions and developing trust based network relationships. Further, a firm's growth and survival depends on its capacity to learn and adapt its strategies to the changing environment (Johnson, *et. al.* 2008).

A firm can grow by expansion of the current activities which is referred as "organic growth". Firms can also grow by acquiring existing firms. Trust based relationships are based on interpersonal relationships to form networks and alliances. Different types of growth have different implications for the firm managers and also have different impact on the firm performance. Firms that grow organically show a smoother growth pattern over time compared to firms that grow mainly through acquisitions. Firms early in their life cycle and small firms tend to take the organic growth path whereas mature and large firms predominantly grow by acquiring existing businesses (Davidsson, *et al*., 2006).

The degree of indebtedness positively affects sales growth, so is the effect of external finance and cash flow. Honjo & Harada, (2006) found out that on average, young firms are more likely to experience positive growth; moreover, turnover growth is positively associated with firms' size, process innovation, product innovation, strategy and organisational changes. The inter-relationship between growth and profitability is complex and is the reason for the mixed picture provided by the empirical evidences. There are theoretical arguments that growth affects future profitability and profitability supports future growth. But, the exact nature of these relationships and causality remains unresolved. Intuitively, it can be argued that firms with better financial performance will reinvest their profits for further growth. This means that more efficient and profitable firms will have higher growth rates. This makes the relationship between financial performance and expansionary investment even more unique as firms face the constraint of sourcing external financing for further investment (Coad, 2009).

Greiner (1998) asserts that growth in firms takes place in series of steps and phases of evolution and revolution. Hermelo & Vossolo, (2007) found out that technology, diversification and productivity increases corporate growth in Ethiopia. Mengistie, (2012) established that labor quality, asset, productivity, and leverage positively affect growth. Mulunga, (2010), found out that lack of regulatory and policy framework, lack of capital and high operational costs negatively affected the growth of MFIs in Namibia. Alleire, *et. al.*, (2009) identified cultural, institutional, economic, geographic and legal framework as factors that foster the growth of MIFs. Bigsten & Gebreeyesus, (2011) examined the relationships between firm growth and firm size, age, and labor productivity.

Mwobobia, (2012) identified lack of finance, discrimination, problems with the city council, multiple duties, poor access to justice, and lack of education as negatively affecting corporate growth. Muia, (2011) identified profitability, industry concentration, sales growth, stock market index, and Gross Domestic Product growth as the major factors influencing growth of firms in Kenya. Maina, (2011) found out that information technology, funds, technical skills and market research positively affect growth of MFIs. Namusonge, (2010) identified strategies used by businesses during the growth process, and identified barriers and incidents which facilitate or hinder the growth of Small and Micro Enterprises during the growth process.

Coad, (2009) posts that firm growth is a stochastic process and is randomly distributed across firms, and that it is independent of firm-specific characteristics such as firm size and firm age. Not only firm-specific characteristics, principally size and age, but also other characteristics, such as R&D, innovation, strategy and finance, affect firm growth.

2.6 Critique of Existing literature

Among the dreams of every firm is growth, prosperity, and sustainability with impact. However, this is not always the case. Corporate growth can be described as either "jeopardizing" or "healthy." Healthy growth is sustained over time; it is durable. However, jeopardizing growth compromises the quality of firms through high delinquency or poor customer service. Jeopardizing growth can lead to the inability to fulfill financial commitments, including debts and disbursements, or the overextension of human and financial resources. Ultimately, jeopardizing growth will undermine the organization. Fast growth and durability are often incompatible. The pursuit of growth is like running a marathon rather than a sprint. Runners need to pace themselves, to avoid ostrich management, under capitalization, and over expansions leading to eventual down fall (Freel & Robson, 2004; Mwobobia, 2012).

A strong case can be made that strategic management perspectives on growth hold most promise as rich and context-sensitive explanatory frameworks are continuously being documented. However, there are still serious questions about whether corporate managers are consciously or deliberatively strategic in their management style. Even casual observation would suggest that crisis management on a day-to-day basis is a fact of life in many corporations. The rejoinder would be that these are generally not the types of concerns which are successful in growing. For strategic management perspectives on growth to be sufficiently plausible to act as the main conceptual framework for corporations' growth, it would seem essential to be able to demonstrate more substantial longer-term vision and strategic intent amongst the corporate managers (De Jorge & Castillo, 2011).

Further, it is difficult to make comparisons with earlier firm growth literature as idiosyncrasy in the growth rates and the heterogeneity of firms has made it difficult to generalize across the growth experiences of the firm (Coad, 2009). Moreover, the growth dynamics of the manufacturing industry may not be applicable to the service industry. Hence, a study at industry specific growth determinants to understand the growth dynamics of all industries may only be plausible.

2.7 Research Gaps

The complexity and the uncertainty surrounding the phenomenon of firm growth have led to the emergence of various theories predicting the evolution of firms. However, no single theory has given a complete picture of the impact and evolution of firms' growth phenomenon. In the absence of a complete theory of firm growth dynamics, an empirical approach is recommended to seek the stylized facts (Coad, 2009). Although studies attempt to link determinants from different perspectives or dimensions (Baum, & Wally, 2003), their explanatory power is low due to the relatively small number of variables. It is therefore of special interest to examine the determinants of firm growth in an integrated way, and to identify the most important determinants of firm growth (Davidsson, *et. al*., 2006).

Several studies have been conducted on determinants of corporate growth of firms over time. Muia, (2011) identified profitability, industry concentration, sales growth, stock market index, and Gross Domestic Product growth as the major factors influencing growth of firms in Kenya. Hermelo & Vossolo, (2007) found out that technology, diversification and productivity increases corporate growth in Ethiopia. Mengistie, (2012) established that labor quality, asset, productivity, and leverage positively affect growth. Mulunga, (2010), found out that lack of regulatory and policy framework, lack of capital and high operational costs negatively affected the growth of MFIs in Namibia. Mwobobia, (2012) identified lack of finance, discrimination, problems with the city council, multiple duties, poor access to justice, and lack of education as negatively affecting corporate growth. Alleire, *et. al.,* (2009) identified cultural, institutional, economic, geographic and legal framework as factors that foster the growth of MIFs. Bigsten & Gebreeyesus, (2011) examined the relationships between firm growth and firm size, age, and labor productivity. Maina, (2011) found that information technology, funds, technical skills and market research positively affect growth of MFIs. Namusonge, (2010) identified strategies used by businesses during the growth process, and identified barriers and incidents which facilitate or hinder the growth of Small and Micro Enterprises during the growth process. This is a clear indication that strategic management determinants of corporate growth have not been well illustrated. Moreso, key documentation on the strategic management determinants of corporate growth in Kenya is sufficiently lacking. To fill this gap, this study is out to establish the strategic management determinants of corporate growth of MFIs in Kenya.

2.8 Summary

Though corporate growth is an essential indicator of prosperity and sustainability, it is just an option. This chapter has identified the generic strategy theory, competitive advantage theory, the resource dependency theory, and the organizational growth theory as the theoretical framework. Further, six determinants of corporate growth have been reviewed; grand strategy, corporate vision, cost leadership strategy, differentiation strategy, pooling of strategic resources and strategic synergy. Corporate growth is the depended variable. This chapter goes further and points out on metrics of measuring corporate growth and critique of the existing literature on growth of corporations. More so, this study identifies and explains the gaps inherent in determinants of corporate growth patterns in Kenya.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents an overview of the methodological perspective of this research. It therefore focuses on the research design, the target population, sampling frame, sample size, sampling techniques, pilot testing, data collection methods, data processing, analysis and presentation, variable definition and measurement, and a chapter conclusion.

3.2 Research Design

This study will use Descriptive and Quantitative research designs to assess the strategic management determinants of corporate growth in Micro Finance Institutions in Kenya. Bowen (2005); Njanja *et al*,. (2012); Namusonge, *et. al*. (2012) have used both both designs in their studies successfully. Descriptive design is preferred because it ensures complete description and analysis of phenomena making sure that there is minimum bias in the collection and analysis of data (Creswell, 2011). Quantitative analysis will be most appropriate to underscore the relationship between the independent and the depended variables (Bryman, 2011).

3.3 Target Population

The population of study will be 57 firms with operation in Mombasa County as at 31st December, 2012 as per AMFI records. In every MFI selected for study; the chief operations managers, marketing managers, regional managers, branch managers, chief credit officers and chief cashiers will be interviewed while at CBK and AMFI, the board members, operations managers, chief administrators, branch managers and the chief communications officer will be interviewed. These are the top officers in the firms who are involved in strategic management; therefore they will be in a position to provide valuable and credible information about strategic management determinants of corporate growth.

3.4 Sampling Frame

This study will use firm age as the key variable to categorize firms into four clusters. Category A will consist of firms with age limit of 5-10 years, category B, age limit 10-15, and category C 15 years and over while category D will consist of the two MFI regulators. MFIs under five years of age will not be included in the study; the researcher believes this is a period too short to identify a reliable growth path. Moreover, recent evidence suggests that the high growth firms are not necessarily newly founded entrepreneurial startups, but rather tend to be larger and more mature firms (Coad, 2009).

3.5 Sample Size and Sampling Techniques

Both stratified sampling and purposive sampling methods will be deployed. Stratified sampling method will divide the population into distinct, independent strata to enable researchers to draw inferences about specific subgroups that may be lost in a more generalized random sample thus lead to more efficient statistical estimates (Creswell, 2011). Stratified sampling will be used to divide the target group into four strata.

Purposive sampling will ensure that the elements in each stratum will have certain characteristics relevant to the study. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which will best enable the researcher answer research questions. The key characteristic under study is corporate growth, thus, purposive sampling will provide researchers with the justification to make *GENERALIZATIONS* from the sample that is being studied, whether such generalizations are *THEORETICAL*, *ANALYTIC* and/or *LOGICAL* in nature (Woo*L*drid*G*e, 2008). Bowen, (2005); Kothari, (2012) support use of purposive sampling techniques in that it stresses an in-depth investigation in a small number of communities (as opposed to random sampling) because the emphasis is on quality rather than quantity and the objective is not to maximize numbers but to become “saturated” with information on the topic. Using purposive sampling, the researcher will study 32 firms. This will be arrived at as follows as proposed by Kothari, (2004).

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q}$$

Where;
e = Error Term
p = proportion of population = 0.02
q = 1-0.02 = 0.98
N = Target Population
Z = 1.96

$$n = \frac{(1.96)^2 \times 0.02 \times 0.98 \times 57}{(0.02)^2 \times 56 + (1.96)^2 \times 0.02 \times 0.98} = 42$$

However, an adjustment in the sample size may be needed to accommodate a comparative analysis of subgroups (e.g., such as an evaluation of program participants with nonparticipants). Kish, (1965) says that 30 to 200 elements are sufficient when the attribute is present 20 to 80 percent of the time (i.e., the distribution approaches normality). As a result, the sample size will be adjusted to 32 through purposive sampling method. From category A, 15 firms will be selected for study, while from category B, 10, category C all 5 and category D all 2 firms. These 32 firms will be a representative of the study population.

Table 3.1 Sampling Techniques

Firm category	Age	Population	Sample Size	% of Sample Size
Category A	5-10 years	30	15	50
Category B	10-15 years	20	10	50
Category C	>15 years	5	5	100
CBK	-	1	1	100
AMFI	-	1	1	100
Total		57	32	56.1

3.6 Data Collection Methods

This study will use both primary data and secondary data.

3.6.1 Primary Data

The process of primary data collection will commence by acquiring a research permit from the national council for science and technology together with the university introduction letters of authority. These letters will be dropped in firms ear marked for study at the same time booking appointments. Follow ups will be through email, cell phone calls and personal visits. The main instruments of primary data collection for this study will be questionnaires. Structured and semi structured questionnaires will be most appropriate for their ability to be easily administered, completed and analyzed (Creswell, 2011). Valid and detailed questions about the strategic management determinants of corporate growth in MFIs will be structured. The semi structured questions will be used to back up the structured questions. These open ended questions will permit greater depth of response when a personal response is needed.

O'Donoghue and Punch (2003), maintain that open ended questions give respondents freedom to express their views, opinions and a lot of make suggestions. Through this, they provide the researcher with written essay accumulation of data. Where the researcher does not administer the questionnaires personally, close supervision and follow up will be ascertained to ensure consistency in the interpretation of questions in a bid to reveal the situation on the ground and in line with the study objectives. The respondents will first be briefed thoroughly concerning the purpose and the subject of study. Five questionnaires will be administered to each firm in category A, B, C and D. An estimated total of 160 questionnaires will be administered and thus expected back for serialization and analysis.

3.6.2 Secondary Data

Secondary data is data collected by someone other than the user. Secondary data collection and analysis saves time that would otherwise be spent collecting data and, particularly in the case of quantitative data, provides larger and higher-quality databases that would be unfeasible for any individual researcher to collect on their own. This wealth of background work means that secondary data generally have a pre-established degree of validity and reliability which need not be re-examined by the researcher who is re-using such data. It is also helpful in the research design of subsequent primary research and can provide a baseline with which the collected primary data results can be compared to (Bishop, 2007). For this study, secondary data will be collected through data mining and content analysis from company records, journals and texts on strategic management determinants of corporate growth.

Data Triangulation will be used to improve on the validity and reliability of this study. Data Triangulation involves using and comparing different sources of data in order to improve study validity and reliability. Bryman (2011) contends that data triangulation gives a more detailed and balanced picture of the situation. It facilitates validation of data through cross verification from more than two data sources in the study of the same phenomenon. By combining multiple data sources researchers can hope to overcome the weakness or intrinsic biases and the problems that come from single data source studies. This aids in confirming research results and conclusions (Stake, 2010). In this study, data triangulation will harmonize responses from the MFIs, the Regulators and data mined from company records. If findings from these three different sources draw similar conclusions, then internal validity and reliability will be established.

3.7 Pilot Testing

A pilot study is the specific pre-testing of a particular research instrument such as a questionnaire or interview schedule. Pilot studies are a crucial element of a good study design. Conducting a pilot study does not guarantee success in the main study, but it does increase the likelihood of success; to establish whether proposed methods or instruments are inappropriate or too complicated. It is thus the assessment of how well the study components work (Arain *et al*. 2010).The questionnaires will be pilot tested on four selected firms within Mombasa CBD. Pilot study will assist the researcher to test the data collection instruments and anticipate the kind of challenges expected in the study, and thus address them in time. Adjustments, if any will be done accordingly and the questionnaires completely furnished for the study data collection. The Cronbach alpha tool will be used to test the data validity and reliability. If Cronbach alpha calculated value is above 0.7, the internal consistency is strong thus acceptable.

3.8 Data Analysis and Presentation

Administered questionnaires will be checked for completeness, accuracy and consistency. The data collected from MFIs will be presented for editing, classification, cleaning, transformation, tabulation and coding. Data will be analyzed using qualitative and quantitative techniques.

3.8.1 Qualitative Analysis

Qualitative analysis will be based on analytic methods which take account of complexity, detail and context. It is good at answering 'How?' and 'What?' questions (in contrast to the 'Whether' or 'If' queries commonly addressed by quantitative research). Further, it uses information sampling and qualification. Qualitative analysis is viewed as a way to understand what participants "really" thought, felt, or did in some situation or at some point in time. The text becomes a way to get "behind the numbers" that are recorded in a quantitative analysis to see the richness of real social experience. It is seen as a perspective that views a text as an interpretation that can never be judged true or false. The text is only one possible interpretation among many (Patton 2002). Qualitative data analysis will be done using variables description, comparison and descriptive statistics (Creswell, 2011).

3.8.2 Quantitative Analysis

Data will be entered into the computer system for quantitative analysis. Quantitative analysis will be done using Statistical Package for Social sciences (SPSS) computer software version 20. SPSS is a complete statistical package for data analysis. The hypothesis will be tested using t-test at 95% confidence level. Data will be presented in tables, graphs and pie charts.

a) Model Specification

The Tobit model will be used to express the relationship between the strategic management determinants and corporate growth in MFIs. The standard error test will be used to shape the final regression model. This model is best suited for it attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable is associated with a value of the dependent variable (Stock & Mark, 2007). Tobit Model will be used to increase consistency and avoid a downwards-biased estimate of the slope coefficient or an upwards-biased estimate of the intercept (Schnedler, 2005).

The model will be as follow;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where;

Y = Dependent Variable (Corporate Growth)
β_0 = Constant Term
X_1 = Independent Variable 1 (Grand Strategy)
X_2 = Independent Variable 2 (Corporate Vision)
X_3 = Independent Variable 3 (Cost Leadership Strategy)
X_4 = Independent Variable 4 (Product Differentiation Strategy)
X_5 = Independent Variable 5 (Pooling Strategic Resources)
X_6 = Independent Variable 6 (Strategic Synergy)
$B_1 - \beta_6$ = Regression Coefficient for each independent Term
ε = Random or Stochastic Term

3.8.3 Variable Definition and Measurement

The following four variables; corporate strategy, competitive positioning, strategic partnerships and corporate growth together with their indicators and their metrics of measurement have been identified and outlined.

Table 3.2 Variable Definition and Measurement

Determinants	Variables	Variable Measurement
i) Grand Strategy	Presence, monitoring, institutionalization, strategic planning, communication, implementing plans	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
ii) Corporate Vision	Presence, clarity, monitoring, corporate culture, reviewing, communication, alignment	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
iii) Cost leadership	Interest rate, cost of production, pricing strategy, cost control	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
iv) Differentiation	Products, branch network, customer service, IT, image, innovations, recovery period	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
v) Pooling of Strategic Resources	Supplementary resources, financial capital access, new markets, alliances, resource bases.	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
vi) Strategic Synergy	Sharing risks, expenses, skills, knowledge, innovation corporation, redundancy	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.
vii) Corporate Growth	Profits, Market Share, New Customers, Loan recovery, branch network, employees, social impact	Overall, on a scale of 1-5; where 5 represents the highest score with 1 representing the least extend.

3.9 Conclusion

This chapter has identified descriptive (qualitative) and quantitative research design as the best for this study. The target population is 57 firms out of which a sample of 32 firms which will be arrived at through both stratified sampling and purposive sampling methods. Primary data instrument will be structured and unstructured questionnaires supported by data mining as secondary methods. Data triangulation will be deployed to harmonize responses from the MFIs, the Regulators and data mined from company records. Crobach Alpha test will be deployed to greatly increase validity and reliability. Data will be analyzed both qualitatively (variable description) and quantitatively (SPSS version 20). The hypothesis will be tested using t-test at 95% confidence level. Data will be presented in tables, graphs and pie charts. Tobit model will be used to express the relationship between strategic management determinants and corporate growth.

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APPENDICES
APPENDIX I: INTRODUCTION LETTER

Stanley Kavale
Jomo Kenyatta University of
Agriculture and technology
Po Box 62000-002000
Nairobi.

19th May, 2014.

To the;
Microfinance Institutions in Kenya
Microfinance Regulators in Kenya

Dear Sir/ Madam,
RE: PERMISSION TO COLLECT RESEARCH DATA IN YOUR ORGANIZATION.

I am a post graduate student at the Jomo Kenyatta university of Agriculture and technology undertaking a PhD in business Administration course. As a requirement for the completion of this course, I am required to collect and analyze research data. My study is entitled the

‘‘STRATEGIC MANAGEMENT DETERMINANTS OF CORPORATE GROWTH IN SELECTED MICROFINANCE INSTITUTIONS IN KENYA’’.

As a result, your organization has been selected to form part of this study. This is to kindly request you to assist in the completion of the attached questionnaire. Information collected will be treated with utmost confidentiality. Your assistance will be highly appreciated.
Thank you

Stanley Kavale	**Dr. F. Mugambi**	**Prof. G. Namusonge**
Student	**University Supervisor**	**University Supervisor**

APPENDIX II: QUESTIONNAIRE TO MFIs, CBK & AMFI

This questionnaire aims at collecting information on the Strategic Management Determinants of Corporate Growth in Selected Micro Finance Institutions in Kenya. Your firm has been selected to form part of this study. Please answer the following questions. Information collected will be treated with due confidentiality and will be used for academic purposes only.

PART ONE: INTRODUCTION

1. a) Name of respondent (optional) ……………………………………………….

b) i) Name of organization …………………………………………………………

ii) If CBK or AMFI in (i) above; what role does your organization play in operation and growth of MFIs in Kenya?
………
…………………………………………………

c) Which Department/ section are you working? …………………...……………..

d) What is your highest level of education?

Certificate/Diploma ☐ 1st Degree ☐ Masters ☐ Phd ☐

e) What is your current designation?

Manager ☐ Ass. Manager ☐ Director ☐ CEO ☐ Other ☐

f) For how long have you worked in your current position?

0-5years ☐ 5-10years ☐ Over 10years ☐

g) For how long have you worked in this organization?

0-5years ☐ 5-10years ☐ Over 10years ☐

h) Identify the age of your organization

0-5years ☐ 5-10years ☐ Over 10years ☐

PART TWO: STRATEGIC MANAGEMENT DETERMINANTS OF CORPORATE GROWTH

2. Grand Strategy

Please indicate with a tick the extent to which grand strategy affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Corporate strategy affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent (1)
A1.Presence of Grand Strategy positively affects corporate growth of our MFI/ MFIs					
A2.Institutionalization of Grand Strategy leads to increased corporate growth of our MFI/ MFIs					
A3. Communication of Grand Strategy leads to increased corporate growth of our MFI/ MFIs					
A4. Continuously Monitoring the Grand Strategy leads to increased corporate growth of our MFI/ MFIs					
A5. Presence of strategic planning improves corporate growth of our MFI/ MFIs					
A.6 Proper implementation of strategic planning improves corporate growth of our MFI/ MFIs					

A7. How would you rate the effectiveness in use of grand strategy on the corporate growth of your MFI/ MFIs?

Very effective ☐ Effective ☐ Average ☐ Less effective ☐
Not effective ☐

3. Corporate Vision

Please indicate with a tick the extent to which Corporate Vision affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Corporate Vision affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent (1)
B1. Presence and Clarity of Corporate Vision leads to increased corporate growth of our MFI/ MFIs					
B2. Institutionalization of Corporate Vision leads to increased corporate growth of our MFI/ MFIs					
B3. Communication of Corporate Vision leads to increased corporate growth of our MFI/ MFIs					
B4. Continuously Monitoring the Corporate Vision leads to increased corporate growth of our MFI/ MFIs					
B5.Continuously Reviewing the Corporate Vision leads to increased corporate growth of our MFI/ MFIs					
B6. A unifying corporate culture leads to increased corporate growth of our MFI/ MFIs					

B7. How would you rate the level of Vision alignment with the organizational mission and objectives of your MFI/ MFIs?

☐ Very good ☐ Good ☐ Average ☐ Poor ☐ Very poor

4. Cost leadership strategy

Please indicate with a tick the extent to which Cost leadership strategy affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Cost leadership strategy affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent (1)
C1.Operating at Lowest Cost in industry increases profitability in our MFI/ MFIs					
C2. Proper Cost Control and Management increases profitability in our MFI/ MFIs					
C3. Setting Interest Rates at par with competitors leads to increased profitability in our MFI/ MFIs					
C4. Setting Interest Rates lower than competitors leads to increased profitability in our MFI/ MFIs					
C5. Setting Interest Rates lower than competitors leads to increased growth of market share in our MFI/ MFIs					
C6. Setting Interest Rates lower than competitors leads to increased loan recovery in our MFI/ MFIs					

C7. How would you rate the pricing strategy in your MFI/ MFIs?

☐ Very Competitive ☐ Competititve ☐ Average

☐ Less competitive ☐ Not competitive

5. Product Differentiation Strategy

Please indicate with a tick the extent to which Product Differentiation Strategy affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Product Differentiation Strategy affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent (1)
D1. Having a Wide Branch network increases profitability in our MFI/ MFIs					
D2. Increasing Grace Payment period increases profitability in our MFI/ MFIs					
D3. Best Customer Service increases market share of our MFI/ MFIs					
D4. Incorporating Technology Repayments (Mobile phone cash) increases profitability in our MFI/ MFIs					
D5. Improved Brand Image leads to increased entry of new customers in our MFI/ MFIs					
D.6 Product innovation leads to increased market share in our MFI/ MFIs					

D7. How differentiated are services of your MFI/ MFIs?

☐ Highly differentiated ☐ Differentiated ☐ Average

☐ Less differentiated ☐ Not differentiated

6. Pooling of Strategic Resources

Please indicate with a tick the extent to which Pooling of Strategic Resources affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Pooling of Strategic Resources affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent(1)
E1. Seeking of complementary/ supplementary resources leads to increased profitability of our MFI/ MFIs					
E2. Access to financial capital resources from partnering banks leads to increased profitability in our MFI/ MFIs					
E3. Entering in to Strategic Networks (alliances) leads to increased market share in our MFI/ MFIs					
E4. Entry into New Markets through strategic partnerships leads to increased growth of market share in our MFI/ MFIs					
E5. Forming Partnerships with Customers and Competitors leads to increased growth of market share in our MFI/ MFIs					
E6. Presence of Large Strategic Resource base leads to increased profitability in our MFI/ MFIs					

E7. How would you rate the sources of capital for your MFI/ MFIs in the industry?

☐ Very Competitive ☐ Competititve ☐ Average

☐ Less competitive ☐ Not competitive

7. Strategic Synergy

Please indicate with a tick the extent to which Strategic Synergy affects the corporate growth of your MFI/ MFIs in Kenya.

The extent to which Strategic Synergy affects corporate growth of MFIs through;	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent(1)
F1. Sharing of Risks and Expenses leads to increased profitability in our MFI/ MFIs					
F2. Increased Corporation and Innovation leads to increased market share in our MFI/ MFIs					
F3. Eliminating Structural Redundancy and Sharing of Successful Strategies leads to increased profitability in our MFI/ MFIs					
F4. Combined Competitive Advantage leads to increased profitability in our MFI/ MFIs					
F5. Sharing of knowledge and skills leads to increased profitability in our MFI/ MFIs					
F6. Enhancing and amercing strategic synergy leads to increased profitability in our MFI/ MFIs					

F7. How would you rate the effectiveness of strategic partnerships in the corporate growth of your MFI/ MFIs?

☐ Very effective ☐ Effective ☐ Average ☐ Less effective

☐ Not effective

8. Corporate Growth of MFIs

Rate the following measures of corporate growth over the last five years, ten years, fifteen years (Tick where appropriate) and indicate to what extent each has affected the corporate growth of your MFI/ MFIs in Kenya. (Tick only once where appropriate).

Measures of MFI Growth	Greatest Extent (5)	Great Extent (4)	Moderate Extent (3)	Small Extent (2)	No Extent (1)
G1. Increased Corporate Profits					
G2. Increased Market Share					
G3. Increased entry of New Customers					
G4. Increased rate of Loan Recovery					
G5. Increased branch network					
G6. Increased number of employees					
G7. Increased impact on society (economic empowerment/ poverty alleviation)					

G8. In your MFI/ MFIs in Kenya, which are the four (4) most commonly used metrics of measuring corporate growth? (Refer to variables in G. above, and rate in their order from the most used).

………

G9. Which of the following best reflects profitability in your MFI/ MFIs as a result of the use of strategic management determinants of corporate growth?

☐ <0% ☐ 0-25% ☐ 25-50% ☐ 50-75% ☐ 70- 75%>

Thank you very much for your contribution in this study. We are highly grateful.

APPENDIX V: THESIS WORK PLAN

Task	Sept 2010	Sep 2011	Jan 2012	Dec 2012	Oct 2013	May 2014	Jun 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014
1. Start of PHD/ course work												
2. Completion of course work												
3. Development of concept paper												
4. Dvt & Completion of PhD proposal												
5. Proposal Defense												
6. Seminar Defense												
7. Data Collection & Analysis												
8. Presentation to Committee												
9. Completion of first draft												
10. Thesis Defense												
11. Completion of PhD												
12. Graduation												

APPENDIX VI: RESEARCH BUDGET

Budget Period: June, 2013-December, 2014

Personnel/ Labour Costs	Ksh.	
3 Graduate Assistants for 12 months	200, 000	
Analysis Technician for 4months	<u>100, 000</u>	
		300, 000
Transport, Traveling and Communication	150, 000	
Equipment	50, 000	
Materials and Supplies	50, 000	
Printing and Photocopying	50, 000	
		<u>300, 000</u>
Total Project Cost		**<u>600, 000</u>**

APPENDIX VII: LIST OF MFIs IN KENYA

1. **AAR Credit Services**
2. **ADOK TIMO**
3. **Agakhan First Microfinance Agency**
4. **BIMAS**
5. **Blue Limited**
6. **Canyon Rural Credit Limited**
7. **Century DTM LTD (Interim)**
8. **Chartis Insurance**
9. **CIC Insurance**
10. **Co-operative Bank**
11. **ECLOF Kenya**
12. **Elite Microfinance**
13. **Equity Bank**
14. **Faulu Kenya DTM Limited**
15. **Fusion Capital Ltd**
16. **Greenland Fedha Limited**
17. **IndoAfrica Finance**
18. **Jamii Bora**
19. **Jitegemea Credit Scheme**
20. **Jitegemee Trust Limited**
21. **Juhudi Kilimo Company Limited**
22. **KADET**
23. **Kenya Eclof**
24. **Kenya Entrepreneur Empowerment Foundation (KEEF**
25. **Kenya Post Office Savings Bank**
26. **Kenya Women Finance Trust**
27. **Kilimo Faida**
28. **K-rep Bank Ltd**
29. **K-rep Development Agency**
30. **MIC Microcredit limited**
31. **Micro Africa Limited**
32. **Micro Enterprises Support Fund(MESPT)**
33. **Microensure Advisory Services**
34. **Milango Micro Credit**
35. **Molyn Credit Limited**
36. **Muramati SACCO Society Ltd**
37. **Musoni**
38. **Ngao Credit Ltd**
39. **Oikocredit**
40. **One Africa Capital Limited**
41. **Opportunity International**
42. **Pamoja Women Development Programme (PAWDEP)**
43. **Platinum Credit Limited**
44. **Renewable Energy Technology Assistance Programme (RETAP)**
45. **Rupia Limited**
46. **Select Management Services Limited**
47. **SISDO**
48. **SMEP DTM Limited**
49. **Sumac Credit Ltd**
50. **Swiss Contact**
51. **Taifa Option Microfinance**
52. **U & I Microfinance Limited**
53. **Uwezo DTM Ltd**
54. **Women Enterprise Fund**
55. **Yehu Microfinance TrustSource:**

Association of Microfinance Institutions of Kenya, Dec, 2012.

APPENDIX VIII: LIST OF MFIs REGULATORS IN KENYA

1. **Association of Micro Finance Institutions of Kenya (AMFI)**
2. **Central Bank of Kenya (CBK)**

Source: GoK, Dec, 2012.

KCB

Date: 12/08/2014

CREDIT ADVICE
CASH DEPOSIT

KCB KIPANDE HOUSE

Account AT KCB KIPANDE HOUSE

ACCOUNT DETAILS

A/C NO: 1104162547
A/C REF: 005241970364
NAT COMM FOR SCI ,TECH AND INNOV
Current Account-Corp Inst. Banking

KENYA COMMERCIAL BANK LTD.
TELLER No. 69
12 AUG 2014
KIPANDE HOUSE, NAIROBI

We have credited your above account with

2,000.00 KES

Kenya Shillings TWO THOUSAND ONLY

CASH PAID IN BY: STANLEY MITAU KAVALE
PAYMENT FOR RESEARCH PERMIT FEE-
PHD

Signature :.............................

Transaction Number: TT142241NTTQ at 12:55:33 On 12/08/2014

Thank you for banking with us. You were served by: JEREMIAH KIPAYA PARSININI

*** Advice not valid unless Transaction Number is shown ***

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