# THE EFFECTS OF GRAND STRATEGY ON CORPORATE GROWTH IN SELECTED MICROFINANCE INSTITUTIONS IN KENYA

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# THE EFFECTS OF GRAND STRATEGY ON CORPORATE GROWTH IN SELECTED MICROFINANCE INSTITUTIONS IN KENYA

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Abstract

The main purpose of this study was to assess the effects of grand strategy on corporate growth of Microfinance Institutions (MFIs) in Kenya. The study employed descriptive and quantitative research designs. The target population was 57 firms and the sample size was 32 firms arrived at through stratified and purposive sampling methods. The questionnaire was the primary data tool. The study found out that grand strategy has significant effects on corporate growth in MFIs in Kenya. It concludes that increased deployment of product differentiation strategy increases corporate growth in MFIs in Kenya. It recommends that managers of MFIs must make sure that grand strategies are effectively and efficiently communicated and closely and continuously monitored in the course of the MFIs operations.

**Key word:** corporate, grand, growth, strategy, MFIs

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### 1.1 INTRODUCTION

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). 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. Choice of grand strategy is among strategic decisions.

### 1.2 Corporate Growth and Grand Strategy

The key 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. Grand strategies tend to be associated with a top down management style, which underpin sustained efforts directed toward achieving long-term business objectives. Pearce & Robinson (2013) argue that general consensus exists on the need for generic strategies that provide basic direction for strategic actions in order to achieve long-term business objectives. Good choice and implementation of grand strategy facilitates corporate growth.

### 1.3 Statement of the Problem

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. In essence, growth-oriented firms are a significant contributor in a nation's economic gain. There is a need to understand the growth phenomenon and its importance to conceptualize the phenomenon properly. However,

there is a lack of shared understanding on the causes, effects, and the process of 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).

## 2.0 REVIEW OF LITERATURE

Grand strategy helps to exercise the choice of direction that an organization adopts as a whole (Hill & Jones, 2012). 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. Grand strategies, often called master or business strategies provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. 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" (Wheelen & Hunger, 2012). 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, Shala & Troni, 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, 2012). A grand strategy is a comprehensive general plan of major actions through which a firm intends to achieve its long-term objectives and is supported by coordinated and sustained strategic management efforts. Grand strategies tend to be associated with a top down management style, which underpin sustained efforts directed toward achieving long-term business objectives. Pearce & Robinson (2013) argue that general consensus exists on the need for generic strategies that provide basic direction for strategic actions in order to achieve long-term business objectives. They describe grand strategies as indicating the time period over which long-range objectives are to be achieved. Accordingly, grand strategies are the overall driver of strategic actions; however, using the concept of grand strategies requires caution as many firms may operate in more than one environment or indeed have different interpretations or perceptions of an environment (Rothaermel, 2013).

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, 2007).

The essence of strategic positioning is to choose activities that yield superior profitability because they are different from rivals' and thus create a sustainable competitive advantage. Note that competitive advantage is not necessarily enduring, which is why strategy must be distinguished from operational effectiveness. The reason why strategic planning is a primary concern not only to business managers in particular but also other practitioners is that it may lead to significant benefits for a firm. In effect, an explicit process of strategy formulation can determine a firm's long-run competitive strength and generate a persistently higher rate of profit than its rivals by creating a sustainable competitive advantage. However, in order to compete successfully in the long-run a firm must first choose an appropriate strategic plan (Gamble, 2011). Strategic planning has a positive impact on performance, and a notable relationship between managers having a planning orientation and financial performance, with entrepreneurial, opportunistic managers doing best if they engaged in formal planning. However, planning seems more beneficial over the longer term than the short term. Better performing firms are more likely to engage in sophisticated strategic planning, consider a wider range of issues and to have longer time horizons. Although in small firm formal strategic planning may be limited, performance is not strongly associated with formal strategic planning but operational planning correlates better with enhanced profits and sales than does strategic planning. Strategic planning is beneficial to small firms, though these benefits are more likely to be felt in highly competitive industries as it helps small firms make better strategic decisions and enhances business performance (Pearce & Robbinson, 2013).

## 3.0 RESEARCH METHODOLOGY

This study used descriptive and quantitative research designs to establish the effects of differentiation strategy on the growth of MFIs in Kenya. The target population was 57 firms (55 MFIs which are five years of age and above with operations in Mombasa County and two regulators, CBK and AMFI). Stratified sampling method was used to classify MFIs in three categories based on age; 5-10 years, 10-15 years and 15 years and above. The third category consisted of the regulators. Purposive sampling method was used to identify the 32 firms studied (Creswell, 2013). Five questionnaires were distributed to each firm earmarked for study making a total of 160 questionnaires distributed. Validity and reliability were tested using Cronbach alpha and KMO and Bartlett test respectfully (Picardi & Masick, 2013). Data was analyzed b o t h quantitatively and qualitatively. Descriptive statistics were generated. t-test, Regression analysis, and Anova were generated. Data was presented in tables.

## 4.1 DATA ANALYSIS AND INTERPRETATION

## 4.2 Response Rate

Out of the 160 questionnaires distributed, 114 were completed and received back hence the response rate was 71.25%. This response rate was sufficient for the study.

## 4.3 Reliability  Analysis

## Table 4.1 Reliability Analysis

| Determinates of corporate growth | Reliability Cronbach's .Alpha | Comments | |
| --- | --- | --- | --- |
| Grand   Strategy | .802 | Accepted | The reliability |

analysis alpha score was .802 which was acceptable for this study.

## 4.4 Factor Analysis of Grand Strategy

A Principal Component Analysis with varimax rotation was performed on seven grand strategy measures in order to examine the dimensionality of grand strategy and corporate growth and also to find out if all the variables were significant in corporate growth. The other objective was to group the common factors and to retain a small number of factors which had the  highest influence on corporate growth. The results of factor analysis of grand strategy were shown in tables 4.2.

## Table 4.2 KMO and Bartlett's Test for Grand Strategy

| Kaiser-Meyer-Olkin  Measure  of | Sampling adequacy | 0.666 |
| --- | --- | --- |
| Bartlett's  Test  of  Sphericity | Aprox Chi-square | 466.547 |
| | Df | 21 |
| | Sig. | 0.000 |

KMO measures score on grand strategy was 0.666 which represented great acceptability of the use of factor analysis and sufficient inter correlations. Bartlett's test of Sphericity is significant (chi-square=466.457, p<0.000 ). The total variance explained in the grand strategy constructs was explained in table 4.3.

**Table 4.3 Total Variance Explained for Grand Strategy**

| | Initial Eigen Values | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| Component | Total | % of variance | % Cumulative | Total | % of Variance | % cumulative |
| 1. | 3.554 | 50.775 | 50.775 | 2.930 | 41.859 | 41.859 |
| 2. | 1.309 | 18.694 | 69.468 | 1.933 | 27.611 | 69.469 |
| 3. | 0.829 | 11.839 | 81.309 | | | |
| 4. | 0.596 | 8.517 | 89.826 | | | |
| 5. | 0.455 | 6.507 | 96.333 | | | |
| 6. | 0.181 | 2.591 | 98.924 | | | |
| 7. | 0.075 | 1.076 | 100.000 | | | |

**Extraction Method:** Principal Component Analysis

Principal component analysis with a Varimax rotation was used to factor analyze the seven items related to grand strategy. The correlation matrices among the items revealed a number of correlations in excess of 2 which meant that all responses were suitable for factorization. From the Variance matrix, there were two variables that had Eingen values of more than 1.0. This meant that these were the grand strategy variables that had the highest influence on corporate growth. Component one had the highest variance of 2.930 which accounted for 41.859 % of the variance. Component 2 had the least variance of 1.933 and accounted for 27.611 % of the variance. The cumulative results showed that there were two critical factors driving the use of grand strategy which accounted for 69.469 % of the total variance in this construct. The other five factors also explained the variance at less than 29.531% which meant that some variance had been explained by latent variables.

In order to specify the number of factors that were influencing grand strategy and evaluate what variables to retain, factor loadings were taken into account and the minimum factor loadings of 0.664 were considered to be moderately high. The factors affecting every one variable were all

loaded up together and given a name so that the factors were reduced to a minimum of two. The researcher, however chose to delete one variable (implementation of strategic planning) in grand strategy which did not relate to either factor 1 or 2 in order to continue working out for further relationships as shown in table 4.4.

**Table 4.4 Rotated Component Matrix for Grand Strategy**

| Grand Strategy Measures | Component | |
|---|---|---|
| | 1 | 2 |
| Presence of grand strategy | 0.863 | |
| Institutionalization of grand strategy | | 0.827 |
| Communication of grand strategy | 0.945 | |
| Continuously monitoring grand strategy | 0.893 | |
| Presence of Strategic planning | 0.664 | |
| Effectiveness of grand strategy | | 0.765 |

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 3 iterations.

From the rotation matrix in Table 4.4 a two factor solution was obtained explaining 69.469 % of the total variance in grand strategy. These two factors were grouped as GS1 and GS2. GS1 had four items namely; presence of grand strategy, communication of grand strategy, continuous monitoring of grand strategy and presence of strategic planning. This factor was named presence of grand strategy. GS2 had two items namely; institutionalization of grand strategy and effectiveness of grand strategy and this factor was named institutionalization of grand strategy. The results meant that the six constructs in grand strategy were correlated to the two factors or they could be grouped into two. Using the two factors a scale was created using the average means of each construct. A scale of 1-5 was created and all the means of the entire items in  each

component were analyzed. Factor one which was named presence of grand strategy had an average mean of 3.77 while institutionalization of grand strategy had a mean of 3.96. one construct namely implementation of strategic planning was excluded from further analysis because it was deemed to have a low mean and as such much of its influence could be explained by the other factors.

## 4.5 Demographic analysis

Descriptive statistics for grand strategy were generated and means evaluated against the questionnaires approximate survey value coded to the survey labels. The responses were mapped to questionnaires as; 1 = "No Extend", 2 = "Small Extend", 3 = "Moderate Extend", 4 = "Great Extend" and 5 = "Greatest Extend". The respondents' level of agreement on the effects of grand strategy on corporate growth of MFIs in Kenya was generated as shown table 4.5. Majority of the respondents agreed that institutionalization of grand strategy strongly affected corporate growth of MFIs in Kenya with highest mean score of 4.32. Further, more respondents indicated that communication of grand strategy increased corporate growth with a mean of 4.15. A notable number of respondents agreed that continuously monitoring grand strategy improves corporate growth in microfinance institutions in Kenya with a mean score of 3.84. The inferential statistics indicate that an overall mean score of (inferring to survey value (4), coded as great extend) was achieved for effects of grand strategy on corporate growth of MFIs in Kenya. This implies that majority of firms were aware of the need for a grand strategy as the firms had a grand strategy in operation.

## Table 4.5 Grand Strategy on Corporate Growth

| Statement | n | Mean | S.D |
|---|---|---|---|
| Presence of grand strategy | 114 | 3.86 | 1.080 |
| Institutionalization of grand strategy | 114 | 4.32 | 0.672 |
| Communication of grand strategy | 114 | 4.15 | 0.823 |

| | | | |
|---|---|---|---|
| Continuously monitoring grand strategy | 114 | 3.87 | 0.572 |
| Strategic planning | 114 | 3.21 | 1.525 |
| Effectiveness of grand strategy | 114 | 3.60 | 0.966 |
| Grand | 114 | 3.84 | |

## 4.6 t-tests on Grand Strategy Measures

Grand strategy objective was assessed by seven measures but after factor analysis these measures were reduced to six namely; presence of grand strategy, institutionalization of grand strategy, communication of grand strategy, continuously monitoring grand strategy, strategic planning and effectiveness of grand strategy. The significant results showed that the means were statistically different. Factor one was called presence of grand strategy which had four constructs. Factor two was institutionalization of grand strategy which had two construct. The means of all these constructs have been identified in Table 4.6.

**Table 4.6 t-tests on Grand Strategy Measures**

| Grand Strategy Measures | Sample Size (N) | Mean | Std Error Mean | t-value | Significance (P-value) |
|---|---|---|---|---|---|
| Presence of grand strategy | 114 | 3.860 | 0.101 | 38.164 | 0.000 |
| Institutionalization of grand strategy | 114 | 4.325 | 0.063 | 68.736 | 0.000 |
| Communication of grand strategy | 114 | 4.149 | 0.077 | 53.854 | 0.000 |
| Continuously monitoring grand strat' | 114 | 3.868 | 0.054 | 72.156 | 0.000 |
| Strategic planning | 114 | 3.211 | 0.143 | 22.472 | 0.000 |
| Effectiveness of grand strategy | 114 | 3.596 | 0.090 | 39.753 | 0.000 |

Overall mean score = 3.8423 t-test for equality of means: t-value = 0 = (Ha: there was no difference expected between the means, at $\alpha = 0.05$, 2-tailed). Reject Ha if P-value $\leq \alpha$ , otherwise fail to reject Ha if P-value $> \alpha$ .

Table 4.6 presents the t-Test results which show that on a scale of 1 to 5 (where 5 = to Greatest Extent; 1 = No Extent) grand strategy to a great extent was influenced by institutionalization of grand strategy (mean score = 4.325), communication of grand strategy (mean score = 4.149), and continuously monitoring grand strategy (mean score = 3.868) and to a moderate extend by strategic planning (mean score = 3.211). On average, the effects of grand strategy on corporate growth was to a great extend (overall mean score = 3.843). The one sample t-test comparisons of grand strategy mean scores indicates differences that were all statistically significant. This implies that the extent of effects of grand strategy on corporate growth varies from firm to firm with the highest difference score noted in continuously monitoring grand strategy (t-value = 72.156, P< 0.05), followed by institutionalization of grand strategy (t-value = 68.736, P< 0.05) and communication of grand strategy score (t-value = 58.854, P< 0.05). The lowest statistical difference was reported in strategic planning (t-value = 22.472, P< 0.05).

## 4.7 Regression Analysis

The regression analysis was modeled to measures how well our overall model fits, and how well grand strategy is able to predict Corporate Growth. The linear regression analysis modeled the relationship between the dependent variable (Corporate Growth) and independent variable (grand strategy).

### 4.7.1 Overall Goodness of Fit

From table 4.7, R = .007, representing a .7% of the variance in Corporate Growth can be explained by grand strategy, although this does not imply causality. The final column gives us the standard error of the estimate. This is a measure of how much R is predicted to vary from one sample to the next. An $R^2 = 1$ indicates that the regression line perfectly fits the data. In Table

4.7 below, an $R^2 = .007$ indicates that the regression line moderately fits the data. Using the enter method it was found that the strategic management determinates explain a significant amount of the variance in the value of Corporate Growth ($F(1, 113) = .185$, p < .05, $R^2 = .002$, $R^2$Adjusted $= .007$).

## 4.7 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .041[a] | .002 | .007 | .27311 |

a. Predictors: (Constant), Strategic Synergy, Resource Pooling, Grand Strategy, Cost Leadership, Product Differentiation, Corporate Vision

b. Dependent Variable: Corporate Growth

## 4.7.2 Analysis of Variance

In its simplest form, ANOVA provides a statistical test of whether or not the means of several groups are equal, and therefore generalizes the t-test to more than two groups. The F test (Fisher F distribution) is the ratio of two variances, which are used to determine if two variances are equal. In Table 4.8 the numerator df (1) tells how many predictors the study had (i.e. grand strategy) and the denominator degrees of freedom $(114 - 1 = 113)$ for bi-variate regression use. The value of the F test is $F(1,113) = 18.5$, $(p < .05)$. This means the value of F is statistically significant at a level of 0.01, which suggests a linear relationship among the variables. The statistical significance at a 0.01 level means there is a 99 percent chance that the relationship among the variables is not due to chance.

### Table 4.8 ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .014 | 1 | .014 | 18.50 | .068[b] |
| | Residual | 8.354 | 112 | .075 | | |
| | Total | 8.368 | 113 | | | |

a. Dependent Variable: Corporate Growth

b. Predictors: (Constant), Strategic Synergy, Resource Pooling, Grand Strategy, Cost Leadership, Product Differentiation, Corporate Vision

### 4.7.3 Simple Regression Results of Grand Strategy on Corporate   Growth

The regression coefficient is the slope of the regression line. It gives the information for writing the regression equation. The slope is how steep the line regression line is. A slope of 0 is a horizontal line, a slope of 1 is a diagonal line from the lower left to the upper right, and a vertical line has an infinite slope.

**Table 4.9 Simple Regression Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.146 | .146 | | 21.564 | .000 |
| | Product Differentiation | .016 | .038 | .041 | .431 | .068 |

The intercept is where the regression line strikes the Y axis when the independent variable has a value of 0. The study had one predictor variable (grand strategy). Therefore, a linear regression model with one predictor variable can be expressed with the following equation:

$$Y = \beta_0 + \beta_1 * X_1 + e.$$

The parameters in the model are $\beta_0$, the Y-intercept (Constant = 0.146); $\beta_1$, the regression coefficient (product differentiation Strategy = .041). Therefore, the final equation can be expresses as;

**Y= 0.146+.041x**

This basically means that with one unit change in differentiation strategy, corporate growth can

be predicted as;

**Y= 0.146 + .041(1); Y = 0.187**

## 4.8 Discussions

The findings revealed a statistically significant positive relationship exists between grand strategy and corporate growth. This implies that if grand strategy is deployed in MFIs, corporate growth increases. Hill & Jones (2012) points out that the grand strategy helps to exercise the choice of direction of an organization and derive a competitive advantage for the firm. Thus, the role of grand strategy is to coordinate and direct all the resources of a firm towards the attainment of its goals and objectives. These findings are consistent with Porter (2008) who noted that through competitive techniques and tactics growth is achieved.

## 5.1 CONCLUSIONS AND RECOMMENDATIONS

### 5.2 Conclusions

This study concludes that grand strategy positively and statistically significantly affects corporate growth in MFIs in Kenya. Increased communication of grand strategy and continuously monitoring of grand strategy are among the highest contributors to corporate growth in MFIs in Kenya. It is therefore the firm's responsibility to deploy the best mix of grand strategy sub variables and put them into practical perspective for corporate growth to be realized in MFIs in Kenya

### 5.3 Recommendations

This study recommends that apart from just having grand strategies, managers of MFIs must make sure that grand strategies are effectively and efficiently communicated and closely and continuously monitored in the course of the MFIs operations.

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