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STRATEGY EVALUATION AND ORGANIZATIONAL PERFORMANCE OF MICRO-FINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA.

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ABSTRACT

The microfinance sector in Kenya has faced significant challenges, with performance marked by persistent losses and rising non-performing loans, though it showed resilience amid economic shocks. In 2019, the sector-maintained stability despite global economic slowdowns, with 14 microfinance institutions (MFIs) operating by 2021, up from three in 2010. The main objective of the study was to investigate the effect of Strategy evaluation on organization performance of microfinance institutions in Nairobi City County, Kenya. The study was based on Strategic choice theory. The study methodology comprised of a descriptive research design, a target population of 178 middle and senior management employees of MFIs based in Nairobi City County, Kenya. Through a random sampling technique, the study used Yamanes formulae to obtain a sample size of 123 employees. The study collected primary data through likert scale structured questionnaires through a drop and pick method. A pilot study was carried out at KWFT headquarters and data used for reliability and validity of research instruments. Data was analysed using inferential and descriptive techniques based on a multiple linear regression model with the aid of SPSS version 25. Based on the study findings, its concluded that; strategic management has a positive significant influence on the organizational performance of microfinance institutions in Nairobi City County, Kenya. Based on the findings, strategy evaluation had the highest substantial positive influence on performance. Regular evaluation allows managers to assess whether strategic initiatives are meeting their objectives and delivering expected results. To enhance this process, MFIs should develop key performance indicators (KPIs) and benchmark their progress against both internal goals and industry standards.

Key Words: Strategic Management Processes, Performance, Micro-Finance Institutions, Strategy Evaluation

Background of the Study

Organization performance entails achievement of organization targets set by the organization in the spirit of maximizing shareholders wealth and minimizing the cost of operation while operating ethically (Gökçeka & Karakayab, 2022). Organizational performance is a key dimension that managers direct their attention to achieve due to its effect on the firms short- and long-term sustainability. However, the performance of an organization is affected by the dynamic nature of the business environment that firm operates in (Mitra, 2021). In complex and dynamic business setting, organizations which aims at providing superior innovative process, product and marketing must embrace logical method of strategy.

Organizational strategy is the road map to achievement of firm objectives in the long run which is supported by acceptance of agreed plans and provision of resources essential for achievement of the objectives (Nkemchor & Ezeanolue, 2021). Today's business environment is rapidly changing and most organizations try to embrace flexible and process enhancement strategies to guarantee responsiveness of the firm concerning change. Organization strategies may be long term, highly unstructured, complex, and inherently risky and have great impact on the future of the organization.

According to environmental determinism, strategic practices and process's express ability of the firm's management of opportunities, threats, constraints and other characteristics of the environment (Ojra, Opute & Alsolmi, 2021). Successful strategies enable organization to maintain a competitive position, align internal operations with external environments and survive threats and challenges, while conversely, because of their magnitude, a single, poorly made strategy can lead to its demise and result in corporate embarrassment, large economic losses for stakeholders or even bankruptcy (Gerald, Juma, Minja & Mageto, 2016). An understanding of strategic decisions is vital at all levels in order to influence performance of a firm.

Statement of the Problem

Organizational performance suffers significantly when strategic management implementation is poor, leading to inefficiencies, missed opportunities, and reduced competitiveness. Poorly executed strategies often result in misaligned goals, wasted resources, and unclear roles, which cause confusion and lower employee morale (Sinnaiah, Adam & Mahadi, 2023). Key performance indicators (KPIs) may go unmet as resources are misallocated and initiatives are delayed or poorly executed. Inconsistent communication and lack of leadership support further undermine the organization's ability to adapt to market changes or innovations (Rustamadji & Omar, 2019). Financial performance declines, and market share erodes, as competitors with better implementation capture opportunities. Ultimately, this leads to higher employee turnover, customer dissatisfaction, and reduced long-term viability.

The microfinance sector in Kenya has faced significant challenges, with performance marked by persistent losses and rising non-performing loans (NPLs), though it showed resilience amid economic shocks (Phina, 2020). In 2019, the sector-maintained stability despite global economic slowdowns, with 14 microfinance institutions (MFIs) operating by 2021, up from three in 2010. However, the COVID-19 pandemic in 2020 strained borrowers, increasing NPLs as businesses and households struggled (Nkemchor & Ezeanolue, 2021). By 2022, the sector remained resilient despite election-related economic slowdowns, but NPL ratios spiked to 32.9% for microfinance banks, 11.6% for credit-only MFIs, and 6.2% for wholesale MFIs by mid-2023. In 2023, microfinance banks reported a record Sh2.4 billion loss, with loan books shrinking by 4.7% to Sh37 billion and deposits dropping 6% to Sh43 billion, marking eight consecutive years of losses. Inflation (7.7% in 2023) and tighter monetary policies (policy rate at 12.5%) increased operating costs and reduced household disposable income, exacerbating repayment defaults (Omino, 2020).

The study provides a comprehensive review of studies looking into the relationship between the variables, for example; Maina, Munga and Njeru (2020) revealed that in terms of mission and vision the organization possessed a formal mission to pursue its objectives and also organization focused on what really matters to the stakeholders of State Corporations in Kenya. The study findings did not reflect the case of the micro-finance sector. Juma, Minja and Mageto (2016) found out that successful strategic planning and implementation requires intimate and enthusiastic involvement of all members of the organization and that management teams should strengthen the process of strategic thinking for it to be truly effective. The study findings did not reflect the case of the micro-finance sector. Oswago (2018) found out that appropriate application of each of the four strategic management capabilities positively and significantly influence the performance of commercial banks in Kenya. The study findings did not reflect the case of the micro-finance sector. Most Kenyans have embraced the financial services offered by microfinance institutions in Kenya as they are more favourable than traditional commercial banks, however, there was a lack of comprehensive analysis of how strategic management processes influenced performance of microfinance institutions Nairobi City County, Kenya. An information gap that the study filled.

Specific Objective

i. To establish the effects of strategy evaluation on the organizational performance of microfinance institutions in Nairobi City County, Kenya.

Theoretical Review

Survival Based Theory

The survival theory was initially introduced in the field of economics by Schumpeter (1934). According to Herbert Spencer, the theory emphasizes that by following the principle of nature, only the best and the fittest of competitors will win (Okumus, Altinay, Chathoth & Koseoglu, 2019). Those firms which survived and prospered will adapt to their environment by engaging in ruthless business rivalry and unprincipled strategies. In organization terms, the Survival Theory entails fundamental transformation of drastic, radical, sporadic, brief and all-encompassing change of organization’s routine activities covering most of organization’s processing.

Social Darwinism assumed that it is normal for business competition to behave in hedonistic ways to produce the fittest organization, which survives and prospers by successfully adapting to its environment or become the most efficient and economically effective organization (Rafiq, Zhang, Yuan, Naz & Maqbool, 2020). Hence, ruthless organizational rivalry and corrupt politics are acceptable under this assumption. The management's survival-based view stressed the assumptions that companies should adopt strategies that concentrate on running efficient operations to survive in a competitive environment. These scholars concluded that an organization that succeeds is the one that is the most suited and capable of adapting to the business environment (Alamri, 2019).

Subsequently, those firms which will survive must have substantial strategic management capabilities to strategies and out do their rivals (Varelas & Apostolopoulos, 2020). The theory suffered criticism from Neo-Darwinism in the later part of the 20th century, which premised strongly on social solidarity as a fundamental fact of evolution. It is assumed under this theory that competition and cooperation are interconnected, and competition will force a business to be cooperative (Alfaro, Yu, Rehman, Hysa & Kabeya, 2019). Hence, virtues and values of doing good and ethical business, such as through friendship, trust, loyalty and cooperation, are encouraged in order to survive the competitive market (Osano, 2019). The theory was relevant in explaining the effect of strategy evaluation on the organizational performance of microfinance institutions in Nairobi City County, Kenya.

Conceptual Framework

The conceptual framework is an illustration of the relationship between strategic management processes i.e. Evaluation on Organizational performance in Asset financing firms in Nairobi City County, Kenya.

Independent variables **Dependent variable**

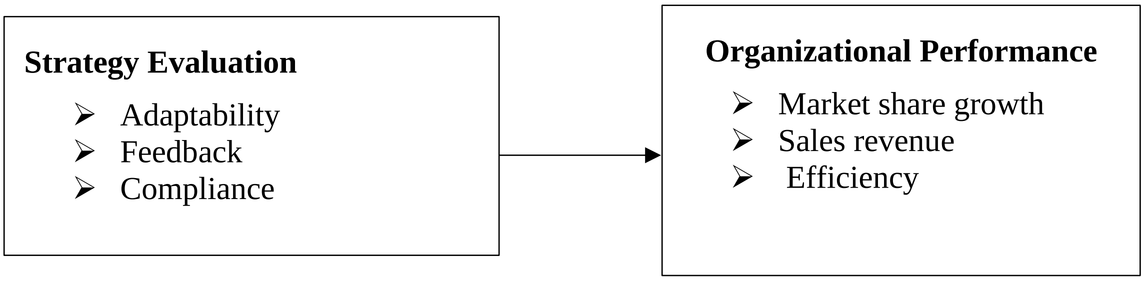

Figure 2.1: Conceptual framework

Strategy Evaluation

Evaluation is a systematic determination of the success or failure of what was predicted or what was to be accomplished and how it was accomplished (Linde, Sjödin, Parida & Gebauer, 2020). This includes, assessing whether deadlines were met, implementation steps and processes are working correctly and whether the expected results were achieved. Evaluation establishes challenges which may affect the attainment of the expected results besides providing information on the reasons for the success. In the case of shortcoming, the strategy that was used can be modified or reformulated. When success is realized, the information obtained for such outcome form part of the reference material for managerial decision on future performance issues (Bogers, Chesbrough, Heaton & Teece, 2019).

Evaluation is conducted by determining the volume assessed strategies, tabulation of the corrective action taken and establishing the number of successful returns on investments made (Fuertes, *et al.*, 2020). When evaluation is done regularly, managers are provided with opportunities to respond or intervene on the internal and external environmental challenges that may occur during the implementation strategies. It also allows the management to adjust to the changing business environment which essentially is a requisite for better performance outcome.

Strategy evaluation is the final step in the strategic management model. Consequently, managers can adjust the formulated strategy by comparing the results with the expected outcome (Barros-Contreras, 2022). Strategy evaluation seeks to determine whether the plans are practical, feasible and if they fit into the financial capability of an organization. Some of the main factors to consider during the process include consumer demand and the quality of product. Though strategy evaluation in small firms resembles the process in large corporations; the level of the evaluation is different.

Strategy evaluation plays vital roles to protect the business from collapse. Moreover, it prevents organizations from making the wrong decision because it identifies disruptions before they lead to serious damage, as it provides important information for management to anticipate problems if the internal and external changes occur (Chege & Wang, 2020). Ineffective evaluation can limit success or create worse problems. Conversely, strategy evaluation can be carried out effectively by setting objectives and evaluating actual results against the objectives. Therefore, the management needs to ask the right questions to ensure their effectiveness.

Organizational Performance

The notion of organizational performance is very common in academic literature and within organizational conversations. As such, people of different persuasions understand it differently.

In early 1950s, organizational performance was viewed as the extent to which organizations systems fulfilled their set objectives (Alamri, 2019). During this period, the performance evaluation was focused on work, people and organizational structure. The idea however changed in the 1960s and 70s when organizations begun to explore new ways of determining their performance. Performance is denoted as an organization's ability to exploit its environment by accessing and using the limited resources available. A firm would therefore claim to have successful performance on the basis of maximizing scarce resources to attain its objectives.

The evolution of the concept continued and, in the period of 1980s, and 90s a new paradigm emerged with the realization that the identification of organizational objectives is more complex than initially imagined (Varelas & Apostolopoulos, 2020). Managers began to understand that an organization is successful if it effectively accomplishes its goals by using a minimum of resources at its disposal. Subsequently, the organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources. This school of thought conceived profits as the main indicator of performance.

Today, the term organization performance is viewed as the attainment of superior profit levels, larger market shares and the level of growth registered by companies (Osano, 2019). Morkunas, Paschen and Boon (2019) contends that organizational performance is a measure of the actual output or results of an organization as measured against its goals and objectives. The goals include financial performance (profits, return on assets, return on investment); product market performance (sales, market share), and return on shareholders' wealth.

Empirical Review

Strategy Evaluation on Organizational Performance

Hieu and Nwachukwu (2019) examined strategy evaluation process and strategic performance of mobile telecommunication firms operating in Nigeria. The authors used theoretical insights from strategic management literature to better understand how a firm process of strategy evaluation affects strategic performance. The research was done in a single industry, using quantitative methods and survey to obtain information from employees of four mobile telecommunication MNCs operating in Nigeria. The findings suggested that a mobile telecommunication firms adopt a systematic approach to strategy evaluation which has a significant and positive impact on their strategic performance.

Okwemba and Njuguna (2021) examined the effect of strategy evaluation on performance of Chemelil sugar company in Kisumu County, Kenya. A descriptive research design was deemed the most appropriate research design to be utilized in the study. The target population was 60 respondents from departmental heads, sectional heads, superintendents and foremen. The study conducted a census. The study concluded strategy evaluation practices at Kisumu County government contributed to positive performance. In addition, it was concluded that strategy evaluation facilitated organizational direction setting at it ensured compliance to organizational vision and streamlined operations.

Punt, Butterworth, de-Moor, De-Oliveira and Haddon (2016) conducted a system literature review on strategy evaluation using simulation to compare the relative effectiveness for achieving management objectives of different combinations of data collection schemes, methods of analysis and subsequent processes leading to management actions. The study revealed that management strategy evaluation conducted in the fisheries sector has improved the financial performance of firms involved in the industries. The study also revealed that strategy evaluation is not without challenges, particularly in regards to uncertainty. The scope of the study was only narrowed to fisheries/processing industry sector thus necessitating studies on professional service firms.

RESEARCH METHODOLOGY

The study adopted a descriptive research design, defined by Vannette (2018), as a methodological approach that aims to systematically describe the characteristics, behaviors, or phenomena under study. The study targeted 178 middle and senior management employees of Micro-finance institutions in Nairobi City County, Kenya.

Table 1: Target Population

Microfinance		Population	Percentage
i.	Caritas Microfinance Bank Limited	9	5%
ii.	Century Microfinance Bank Limited	11	6%
iii.	Choice Microfinance Bank Limited	6	3%
iv.	Daraja Microfinance Bank Limited	8	4%
v.	Faulu Microfinance Bank Limited	21	12%
vi.	Kenya Women Microfinance Bank Limited	27	15%
vii.	Rafiki Microfinance Bank Limited	18	10%
viii.	Remu Microfinance Bank Limited	11	6%
ix.	SMEP Microfinance Bank Limited	20	11%
x.	Sumac Microfinance Bank Limited	6	3%
xi.	U & I Microfinance Bank Limited	7	4%
xii.	Uwezo Microfinance Bank Limited	23	13%
xiii.	Maisha Microfinance Bank Ltd	11	6%
Total		**178**	**100%**

Source: Central bank of Kenya (2025)

This study used random sampling method so that each item had an equal chance of being picked for the study. The sample size is a subset of a population. The sample size determines the statistical accuracy of the findings. Sample size is a function of change in the population parameters under study and the estimation of the quality that is needed by the study. The study used Yamane's formulae to take a sample size of 123 middle and senior management employees from the total population of 123 employees in senior management at microfinance institutions in Nairobi City County, Kenya. The research collected primary data through structured questionnaires. Primary data is the original raw data received direct from the field of study (Kothari, 2004).

The questionnaires were administered through the drop and pick later strategy to targeted employees in management positions. The study used descriptive analysis technique to generate mean, mode and standard deviations for responses given by study participants and inferential techniques for correlation (measures the strength and direction of the relationship between two variables), ANOVA (compare the means of three or more groups to see if there is a statistically significant difference among them), model summary (provides key metrics that evaluate the performance of a regression model) and regression analysis (examines the relationship between a dependent variable and one or more independent variables). Multiple regression was used to determine whether the specific variables together predicted a research gap.

ANALYSIS, INTERPRETATION AND PRESENTATION OF FINDINGS

The study administered 123 structured questionnaires to middle and senior management employees of Micro-finance institutions in Nairobi City County, Kenya. The study recorded a response rate of 78.9%, targeted study participants gave a good response while others who chose not to respond were not available in the office at the time of carrying out the study. According to Saxena and Wong (2020) a high response rate ensures the data's reliability and validity and such a response rate is sufficient for findings generalizability.

Descriptive Statistics Analysis

The study analysed the Mean, Standard deviation, Skewness and Kurtosis on the study variables i.e. strategy evaluation and organization performance of microfinance institutions in Nairobi City County, Kenya. The results are presented in the table 2;

Table 2: Descriptive Results

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Strategy Evaluation	97	2.33	.770	.200	.180	.397
Performance	97	4.03	-.665	.200	1.831	.397

The mean of 2.33 for strategy evaluation perceive this aspect as inadequate or underutilized. the findings slightly differ to that of a study by Hieu and Nwachukwu (2019) which examined strategy evaluation process and strategic performance of mobile telecommunication firms operating in Nigeria. The findings suggested that a mobile telecommunication firms adopt a systematic approach to strategy evaluation which has a significant and positive impact on their strategic performance.

Correlation Analysis Results

Correlation analysis was used to assess the strength and direction of the relationship between two or more variables. The analysis was useful in understanding how variables move in relation to one another, providing insights into potential associations without implying causation. The findings are presented in the table 3 below;

Table 3: Correlational Results

Construct		P	SE
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	Sig. (2-tailed)	.008	
Strategy Evaluation	Pearson Correlation	.263**	1
	Sig. (2-tailed)	.001	

The correlation for strategy evaluation is 0.263, also statistically significant with a p-value of 0.001, suggesting a moderate positive relationship with performance. The findings of the are positively supported by Okwemba and Njuguna (2021) who examined the effect of strategy evaluation on performance of Chemelil sugar company in Kisumu County, Kenya. The study concluded strategy evaluation practices at Kisumu County government contributed to positive performance. In addition, it was concluded that strategy evaluation facilitated organizational direction setting at it ensured compliance to organizational vision and streamlined operations.

Regression Analysis Results

The analysis was done to examine the relationships between the study dependent variables and the independent variable. It also enabled the study to quantify the strength and nature of these relationships. The findings are illustrated below;

Table 4: Regression results

	Unstandardized Coefficients		Standardized Coefficients		
	β	Std. Error	Beta	t	Sig.
(Constant)	.874	.251		3.477	.001
Strategy Evaluation	.448	.094	.480	4.789	.000

As shown in the table 4, variables had the following regression coefficients. Strategy Evaluation (β = .448; P-value = 0.000). The co-efficients are illustrated in the equation below;

$$\mathbf{Y} = .874 + ..448X + \varepsilon$$

Strategy evaluation has the highest beta coefficient (β = .448, p = 0.000), indicating it has the most substantial positive influence on performance. The study findings positively relate to that of Punt, Butterworth, de-Moor, De-Oliveira and Haddon (2016) which was based on a system literature review on strategy evaluation using simulation to compare the relative effectiveness for achieving management objectives. The study revealed that management strategy evaluation conducted in the fisheries sector has improved the financial performance of firms involved in the industries. Overall, these findings underscore the importance of all four strategic factors, particularly strategy evaluation and implementation, in driving positive performance.

Conclusions of the Study

Based on the study findings, its concluded that; strategic management has a positive significant influence on the organizational performance of microfinance institutions in Nairobi City County, Kenya. Based on findings, strategy evaluation had substantial positive influence on performance.

Recommendations of the Study

MFIs should place a strong emphasis on strategy evaluation, as it has the highest positive influence on performance. Regular evaluation allows managers to assess whether strategic initiatives are meeting their objectives and delivering expected results. To enhance this process, MFIs should develop key performance indicators (KPIs) and benchmark their progress against both internal goals and industry standards. Frequent evaluations will also facilitate better decision-making and highlight areas where strategies may need adjustments. By fostering a results-oriented culture, MFIs can ensure that strategic initiatives not only succeed but are also sustainable in the long term.

Suggestions for Further Studies

All the four variables under this study cannot be ignored. In this case the model summary 63.39% is used to show the association identified by the analysis based on variables while the remaining percentage of 36.61% indicate that there are other issues not covered by the study which affect organization performance of microfinance institutions in Nairobi City County, Kenya. The study recommends for further studies to look into the other factors represented by 36.61%.

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