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STRATEGIC RISK MANAGEMENT STRATEGIES AND THE GROWTH OF MICROFINANCE SECTOR IN KENYA

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Abstract

Purpose: The purpose of this study was to establish how strategic risk management strategies contribute to growth of MFI sector in Kenya

Methodology: The study adopted a correlation survey research design. The population of this study was fifty seven (57) MFIs. The sampling frame was the list of MFIs provided in the AMFI website www.amfikenya.com. A sample of thirteen (17) MFIs was selected using the random sampling approach. A questionnaire and an interview schedule were the main data collection tools. Qualitative data was analyzed using content analysis whereas the quantitative data was analysed using Statistical Package for Social Sciences (SPSS) where descriptive and regression analysis were conducted to determine the relationship between enterprise risk management strategies and growth of MFIs.

Findings: The findings indicated that there were several strategic management measures that had been put in place by MFI to promote growth. These included the existence of a board with the skills and ability to lead the MFI strategically. In addition, the board members roles extended beyond governance and into management of the MFI and the board had policies stipulating term limits and rotation for its members. Results further indicated that the board had adequate independent directors who agreed on the MFIs mission and strategic direction. The results revealed that the MFI had guidelines for preventing conflicts of interest among board members and the MFI guidelines prohibited related-party (insider) lending, required full disclosure of all conflicts of interest, and required arm's length business transactions. Findings further indicated that the MFI's organizational structure ensured staff accountability and enhanced MFI's efficiency and productivity. Overall, regression results indicated that there was a positive relationship between strategic risk management strategies and MFI growth.

Unique contribution to theory, practice and policy: Following the study results, it was recommended that the MFIs need to enhance effectiveness of strategic risk management practices such as adherence to best practices on corporate governance. In addition, the MFIs need to enhance the skills of the board members as doing so would improve the level of strategic risk management practice. The study recommended that those MFIs that had not implemented the guidelines for preventing conflicts of interest among board members are advised to do so as this may have an impact on the level of growth. It is recommended that MFIs need to put in place guidelines prohibiting related party (insider trading) and also require full disclosure of all conflicts of interest as doing so would improve the growth of the MFI. Furthermore, MFIs need to increase the number of independent directors in their boards as doing so would improve the growth of the MFIs.

Key words: *board, organizational structure, strategic risk management practices, growth, MFIs*

1.0 INTRODUCTION

The role of MFIs in developing countries cannot be overemphasized. Microfinance Institutions provide financial services to the low-income households and Small and Micro Enterprises (SMEs) who are considered unbanked as they lack the prerequisite collateral for loans (Omino, 2005). As a result of their simplicity in funds access, the MFIs have become very popular with the low income groups and they have played a key role in poverty alleviation. The MFIs have emerged as an effective and proven model for alleviating poverty worldwide (Asian Development Bank, 2003). Micro finance institutions exist in various models. The Grameen Bank (2000a) has identified fourteen (14) models. These models are: Associations, Bank Guarantees, Community Banking, Co-operatives, Credit Unions, Grameen Bank solidarity Group, Individual, Intermediaries, NGOs, Peer Pressure, Rotating Savings and Credit Associations, Small Business and Village Banking. The Grameen Bank solidarity Group lending model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach & Guzman, 1994). The Grameen Bank Solidarity Group lending model was developed in Bangladesh to assist rural, landless women to finance income generating activities (Ledgerwood, 1999).

Research and experiences have shown importance of savings and credit facilities for the poor and the SMEs (Omino, 2005). This puts emphasis on sound development of microfinance institutions as vital ingredients for investments, employment and to spur the economic growth. As a result of their flexibility and the way they operate, they are exposed to various risks which include financial risks, operational risks and strategic risks. And as competition increases and the sector mature, MFIs are faced with numerous risks as highlighted above and the sector must mitigate the risks in order to sustain the business and remain relevant in the long run (Omino, 2005). Kombo, Wesonga, Murumba and Mwakoro (2011) identified several risk management strategies, which include risk avoidance, transferring of risk and mitigating risks. The authors further assert that mitigation of risks is regarded as the most effective risk management strategy. Ekka Chaudhary and Sinha (2011) further asserted that a number of good practices have emerged that promote responsible and inclusive lending. They relate to several aspects of institutional management and governance, which MFIs need to implement as part of effective risk management. These include: implementing the client protection principles; implementation of know your client (KYC) requirements through the collection and use of client profile information; client education; the systematic collection and use of client feedback; tracking and analyzing exit rates; manage human resources and staff perceptions; assessing whether clients' enterprises have negative environmental or social effects; communication and transparency and governance in form of effective board systems; emphasizing the role of internal audit.

Enterprise Risk Management (ERM) is a new strategic imperative that is gaining momentum. In USA for instance, Organizations are starting to see the value of, and asking for, strategic solutions like integrated ERM software (Gilbert, 2007). Desender et al. (2007) observed that the Enron failure, together with other high profile corporate collapses, has led to a debate concerning the efficiency and the role of corporate governance. These corporate governance failures culminated in the passage of the Sarbanes Oxley Act (SOX) on July 30, 2002, which have emphasized the importance of control and risk management in preventing fraudulent reporting. While strong theoretical arguments exist as to why a firm should employ enterprise risk management, the main drivers for the implementation have been new corporate governance codes. The author argues that since the corporate scandals and the creation of new corporate governance codes, enterprise risk management has been considered as a valuable element of the corporate governance structure.

ERM, as an increasingly popular concept in the developing countries, is indeed a relatively new term that is catching much today as it is viewed as the ultimate approach to effective Risk Management. Tseng (2007) investigated two research questions arising from the regulation of internal controls required by Sarbanes-Oxley Act of 2002 (SOX).The first research question was on whether better internal controls can enhance firm performance. To address this question, the relation between market-value and internal control was estimated by a residual income model. The empirical results, based on a sample of 708 firms with the disclosures of material weaknesses, showed that firms with weak internal controls have lower market-value.

Central Bank of Kenya (CBK) has also emphasized the importance of ERM. As the banking sector continues to embrace innovations, the intensity and variety of risks that the players are exposed also continue to increase in tandem. To ensure that the growth in the banking sector does not jeopardize its stability, risk management is crucial. In view of this, the CBK carried out a risk management survey on the Kenyan banking sector in the year 2004 (CBK, 2010). The survey's objective was to determine the needs of the local banking sector with regard to risk management. The survey was necessitated by the drive to fully adopt Risk Based Supervision and to incorporate the international risk management best practices envisioned in the 25 Basel Core Principles for Effective Banking Supervision. The survey culminated in the issuance of the Risk Management Guidelines (RMGs) in 2005 and the adoption of the Risk Based Supervision approach of supervising financial institutions in 2005 (CBK, 2010). Kombo, Wesonga, Murumba and Mwakoro (2011) asserted that strategic risk alongside credit risk and liquidity risk were the most frequent risks that occurred among MFIs. The authors argued that to tone down these risks, the MFIs employ various management strategies, which include risk avoidance, transferring of risk and mitigating risks. Mitigation of risks was regarded as the most effective risk management strategy.

Gonzalez (2011) uses the term growth of MFI to mean the increase or decrease in the number of MFI borrowers. CGAP (2009) uses the same measure (the number of clients served) as a measure of MFI performance. In this aspect, the term growth and performance seem to be synonymous. However, the term performance seems to be more popular in literature focusing on

MFIs. For instance, CGAP (2009) uses the term performance to describe the following key indicators: Outreach, Client poverty level, Collection performance, financial sustainability and Efficiency. Despite the popularity of performance as a concept, the current study will restrict itself to the growth concept.

1.1 Statement of the Problem

Given the ever dynamic and challenging business environment, a Micro Finance Institutions (MFI) is bound to be exposed to various risks. The problem is that Micro Finance Institutions that do not adapt and/or institutionalize ERM strategies are likely to witness poor growth patterns compared with those that adapt ERM. The poor growth or failure of the MFIs may lead to serious negative consequences as far as the achievement of Vision 2030 is concerned owing to the important role MFIs are expected to play in supporting employment creation through their clients (the SME sector).

The threat that MFIs may experience stunted growth or collapse as a result of poor risk management is not without any basis. The threat is so real such that some well- known Micro Finance Institutions (MFIs) have collapsed in the past. In 2005, for example, government regulators in Kenya closed Akiba Micro Finance on the grounds that it had unlawfully taken customers' deposits and reneged on the repayments (Ellie et al., 2007). The report by the Task force on Pyramid Schemes (2008) was formed to investigate the collapse of pyramid schemes in Kenya (pyramids are a form of microfinance). The taskforce found that Kenyans lost more than Sh34 billion to schemes such as Developing Enterprise Community Initiative (DECI).

The closest research to the current study is from Kombo et al. (2010) who asserted that strategic risk is one of the risks majorly occurring among Micro Finance Institutions (MFIs) located in Kisii area. The authors argued that to tone down these risks, the Micro Finance Institutions (MFIs) employ various management strategies, which include risk avoidance, transferring of risk and mitigating risks and also regard mitigation of risks as the most effective risk management strategy. Mokoro, Nyaonga, Magutu, Khoya and Onsongo (2010) in an investigation of the various challenges facing the transition of informal MFIs into formal MFIs recognize the existence of risks emanating from both the external and internal stakeholders of the MFI.

The current study noted that the reviewed studies, Mokoro et al. (2010), CBK (2010) have gaps in terms of generalized conclusions due to a tendency to research on all factors that affect the growth of MFIs and the absolute disregard of the role of risk management strategies on the growth of MFIs. On the other hand, those studies that focus on risk management in MFIs are purely descriptive, for instance, Kombo et al. (2010) and lack the statistical rigor that is supposed to accompany such studies. The current study differed significantly from the above reviewed studies as it built a case for adopting strategic risk management strategies as part of ERM strategies and the effect such adoption would have on the growth of MFI sector. The current research hoped to bridge all these research gaps by analyzing the effect of strategic risk management strategies on the growth of MFI sector.

1.2 Research Objective

i. To establish how strategic risk management strategies contribute to growth of MFI sector in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Agency Theory

According to Jensen and Meckling (1976), agency theory holds that managers will not act to maximize the returns to shareholders unless appropriate governance structures are in place and implemented to safeguard the interest of shareholders. In the agency theory terms, the shareholders are the principals and managers are agents. Agency theory extends the analysis of the firm to include separation of ownership and control, and managerial motivation. In the field of corporate risk management, agency issues have been shown to influence managerial attitudes towards risk taking and hedging (Smith & Stulz, 1985).

The theory also explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects (Mayers & Smith, 1987). Agency theory may be used to explain the strategic risk that arises out of poor fit between strategies, resources and implementation and also if its market reputation suffers due to mismanaged operations or client interactions (reputation risks) or due to external market factors (external business risks).

2.1.2 Stakeholder Theory

Stakeholder theory, developed originally by Freeman (1984) as a managerial instrument, has since evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on equilibrium of stakeholder interests as the main determinant of corporate policy. The most promising contribution to risk management is the extension of implicit contracts theory from employment to other contracts, including sales and financing (Cornell & Shapiro, 1987). In certain industries, particularly high-technology services, consumers trust in the company being able to continue offering its services in the future and can substantially contribute to company value. However, the value of these implicit claims is highly sensitive to expected costs of financial distress and bankruptcy. Since corporate risk management practices lead to a decrease in these expected costs, company value rises (Klimczak, 2005). Some of stakeholders who are a source of risk include; customers, suppliers, employees, management, government and civil society. If contracts are made between the firm and any of these stakeholders, the breach of contract by either party may constitute to a strategic risk to the firm.

2.1.3 Growth Theory

According to Jovanovich (2000), growth theory offers two explanations for growth. One stresses the supply of productive ideas and says that the growth of living standards depends on the growth of science. The other explanation invokes incentives: growth could begin only when hard work and business enterprise were free of interference by authority i.e. free from taxation, social stigma and other interference by government. Cortright (2001) emphasizes that economic growth results from the increasing returns associated with new knowledge. Knowledge has different properties than other economic goods (being non-rival and partly excludable). The ability to grow the economy by increasing knowledge rather than labor or capital creates opportunities for nearly boundless growth.

Firm growth can be studied as a dynamic process of management interacting with resources. The dynamic process is best expressed in the extract from Penrose (1985): “As management tries to make the best use of resources available, a truly dynamic interacting process occurs which encourages continuous growth but limits the rate of growth" (Penrose, 1959:24). Arkolakis (2011) asserts that a firm-level growth is the result of idiosyncratic productivity improvements while there is continuous arrival of new potential producers.

2.1.4 Sustainability Theory

Sustainability means a capacity to maintain some entity, outcome or process over time. Financial investment might be deemed sustainable which means that activities do not exhaust the material resources on which it depends. Sustainability in general refers to the property of being sustainable. The widely accepted definition of sustainability or sustainable development was given by World Commission on Environment and Development in 1987. It defined sustainable development as "forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs." Practically, sustainability refers to three broad themes, economic, social and environmental, that must all be coordinated and addressed to ensure the long term viability of our community and the planet.

These well-established definitions set an ideal premise, but do not clarify specific human and environmental parameters for modeling and measuring sustainable developments. The following definitions are more specific: Sustainable means using methods, systems and materials that will not deplete resources or harm natural cycles (Rosenbaum, 1993); Sustainability identifies a concept and attitude in development that looks at a site's natural land, water, and energy resources as integral aspects of the development (Vieira, 1993); Sustainability integrates natural systems with human patterns and celebrates continuity, uniqueness and place making (Early, 1993).

2.2 Growth

The current study attempted to define growth in the context of microfinance institutions. According to Barkham (1996) there is no general agreement on how firm growth should be measured and therefore there is a wide variation on the growth variables used by researchers. A firm growth (size) may be measured according to its revenue or profits or by the amount of human and physical capital it employs. Delmar (1998) considers sales and employment as growth indicators for the reasons that the use of sales and employment measures are the most widely used in empirical growth research. Sales are a relatively good indicator of size and therefore growth. Sales may be considered a precise indicator of how a firm is competing within a market, and indeed firms themselves tend to use it as a measure of their own performance. An analysis of firm growth should at least in part be based on changes in turnover. McKelvie and Wiklund (2010) have a more comprehensive definition of firm growth. They argue that firm growth may be defined as an outcome or process. The term growth when used as an outcome is a dependent variable and is usually explained by a set of independent variables. For the most part, this approach uses growth as the dependent variable and essentially has as its primary goal to explain varying growth rates and/or increments of growth. On the other hand, when the term growth is used as a process, then growth is neither as an independent variable, nor as a dependent variable.

Gonzalez-Vega, Claudio, Schreiner, Meyer, Rodriguez-Meza, and Navaja (1997) describe two types of MFI growth: intensive and extensive. Intensive growth, or adding depth, results from increased productivity of existing capacity. This may be possible through technological innovations; improvement in the utilization of capacity, such as increasing loan officer productivity; or introduction of new products. Extensive growth, in contrast, adds breadth by increasing capacity, such as hiring new staff and opening new offices. According to Churchill (1997), one key factor determining the growth strategy of an MFI is its stage in development. Christen, Robert, Elisabeth, and Robert (1995) outline three stages of institutional development, as shown in Table 1.

Table 1: Stages of Development for Microfinance Institutions

Stage of development	**Observed Pattern of growth**
Level I **Start-up Programs and MFIs that Are Heavily Subsidy Dependent.** They require frequent injections of funds. If these injections are not forthcoming, the program will quickly consume its capital in financing routine operations.	These programs should rely on **intensive growth** by finding ways to increase the productivity of its existing capacity
Level II Programs that Have Achieved Operational Efficiency but Not Full Self-Sufficiency. The range of MFIs at this level includes those that rely extensively on soft money to those on the verge of unsubsidized profitability.	Their market-penetration strategy requires they have their staff training, management information, and other operational systems in place to initiate an **Extensive growth strategy** that replicates a successful branch model in new geographic areas.
Level III **MFIs that Have Achieved Full Self-Sufficiency.** They generate enough revenues to cover both nonfinancial and financial costs, calculated on a commercial basis. Subsidies in the form of concessional funds are no longer needed, and investors can expect a return on equity equivalent to returns available elsewhere in the private sector.	**Extensive growth.** It is important for institutions at this stage to reduce their concentration risk by diversifying their products or markets

Source: Churchill (1997)

2.3 Strategic Risk Management Strategies

Effective strategic risk management strategies are expected to improve MFI growth. Mango (2007) asserts that the concept of strategic risk is not well defined and therefore not well understood. The problem may start because the word strategy itself is neither well defined nor well understood. Another possible source of confusion regarding strategic risk may be that two loaded terms – “strategic” and “risk” is combined in one phrase, without clear grammatical demarcation. The definition offered by the Office of the Comptroller of Currency (OCC) in its 1998 document Emerging Market Country Products and Trading Activities:

> *"Strategic risk is the risk to earnings or capital arising from adverse business decisions or improper implementation of those decisions. This risk is a function of the compatibility between an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks and managerial capacities and capabilities. The definition of strategic risk focuses on more than an analysis of the written strategic plan. Its focus is on how plans, systems and implementation affect the franchise value. It also incorporates how management analyzes external factors that impact the strategic direction of the company"* Mango (2007: 2).

Strategic risks arise when a MFI has inadequate governance structure in place (governance risks) or if its market reputation suffers due to mismanaged operations or client interactions (reputation risks) or due to external market factors (external business risks). The intrinsic and environmental risks that microfinance institutions (MFIs) face are unique.

2.4 Empirical Review

Ekka, Chaudhary and Sinha (2011) asserts that a number of good practices have emerged that not only promote responsible and inclusive lending, but are also crucial in managing strategic risk. The specific strategies relate to several aspects of institutional management and governance, which MFIs need to implement as part of effective operational risk management. These include:- Implementing the Client Protection Principles to safeguard against reputation risk; client education for strategic development of client relationships; tracking and analyzing exit rates for strategic analysis of changing competitive business environment; assessing whether clients' enterprises have negative environmental or social effects so as to safeguard against reputation risk; communication and transparency to enhance strategic client relationships and governance in form of effective board systems to safeguard against mission drift. Lack of strategic risk management strategies may impact negatively on the growth of MFIs. This is because an MFI risks losing future business if customers issues are not addressed strategically. Changing business environment such as stiff competition may also affect the growth of MFIs if the MFI don't assume strategic positions to counter the competition

Kombo et al. (2011) sought to establish the Micro-Finance Institutions (MFIs) preference for the various sources of finances; determine the frequency of Microfinance Institutions' exposure to risk; identify the risk management strategies used by Microfinance Institutions in the management of risk exposures and the extent to which they have contributed to their financial sustainability. A survey design was adopted for the study. The study covered only MFIs within Kisii Municipality selected using purposive sampling. A sample of 29 respondents consisting of both the managers and the credit officers participated. The instrument of collecting data was mainly a questionnaire which had both structured and unstructured questions. The author asserts that strategic risk, credit risk and liquidity risk are the most frequent risks; whereas reputation and subsidy dependence risks occur at a very low incidence. The authors argue that to tone down these risks, the MFIs employ various management strategies, which include risk avoidance, transferring of risk and mitigating risks. Mitigation of risks is regarded as the most effective risk management strategy. Specifically, reconciliation of loan accounts and loan data were considered as the most effective risk management in determining financial sustainability of the MFIs.

Kombo et al. (2011) recommendations are that institutions' management should test the impact of the risk management strategies through internal audit, monitoring and analyzing trends and ratios to check the key indicators in the results. Also, Kombo et al. (2011) observed that the institutions should practice sound financial discipline to enable them stand on their own should the donors withdraw their support.

3.0 RESEARCH METHODOLOGY

The study used correlational survey design. The target population of this study was at two levels. The first level comprised of all micro finance institutions in Kenya who are members of AMFI. The total number of the firms that were registered members of AMFI are fifty seven (57) as at 23 August 2011 as shown in Appendix. The main reason for this choice was that these firms are likely to exhibit an elaborate relationship between the study variables while at the same time they were very vulnerable to risk. The second level of target population was the employees of the MFIs. As at the study date, there were over 10,000 employees of MFIs. Stratified sampling technique was used. The population comprised of two types of categories or strata of MFIs. The first stratum included all MFIs which are licensed by CBK. Census was used to identify the number of licensed MFIs. The number of licensed MFIs was 6. The second stratum comprised of MFIs that were not licensed by CBK. Both quantitative and qualitative data were collected, hence calling for primary and secondary data sources. Primary data was collected by using the questionnaire as the main research instrument. In this study, a semi-structured interview schedule was also used. Qualitative data was analyzed using content analysis whereas the quantitative data was analysed using Statistical Package for Social Sciences (SPSS) where descriptive and regression analysis were conducted to determine the relationship between strategic risk management strategies and growth of MFIs.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered was 51 which were derived from three (3) respondents each representing the three level of management from each of the 17 MFIs. A total of 40 questionnaires were properly filled and returned. This represented an overall successful response rate of 78%. According to Mugenda and Mugenda (2003), a response rate of more than 50% is adequate for analysis. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Table 2: Response Rate

Category	Returned (%)	Unreturned (%)	Total(n)
CEO/Senior Managers	71	29	17
Middle Level Management	82	18	17
Non Managerial	82	18	17
Total	**78**	**22**	**51**

4.2 Strategic Risk Management Strategy

The study sought to find out the strategic risk management strategies the MFIs. The specific elements that the study addressed were:-board skills, board roles, board members agreement on the MFI's mission and strategic direction, existence of independent directors, frequency of board meetings, board committees, board term limits and rotation, guidelines preventing conflicts of interest among board members, guidelines prohibit related-party (insider) lending, investment in organizations owned by board members, criteria for awarding loans to board members, outstanding debts for board members on their loan repayment, role of organizational structure in ensuring staff accountability, role of organizational structure in enhancing the MFI's efficiency and productivity.

4.2.1 Board Skills

The study sought to find out if the board has the skills and ability to lead the MFI strategically. As illustrated in table 3, 52.5% respondent agreed while another 32.5% strongly agreed bringing a total of 85% of those who agreed with the statement that the board has the skills and ability to lead the MFI strategically. Meanwhile 7.5% of the respondents neither agreed nor disagreed and another 7.5% disagreed with the statement.

The findings concur with those in Tseng (2007) and Ekka, Chaudhary and Sinha (2011), which assert that organizations should put in place a board with diverse skills and leadership abilities as a way of enhancing corporate governance and ensuring that strategic risks are easily monitored. The findings also concur with those in Klimczak (2005) who asserts that the organizations should put a board with diverse skills and leadership abilities as a way of enhancing corporate governance and ensuring that the strategic risks are easily monitored.

The findings imply that the MFIs under study their board members had the skills and ability to lead strategically. The findings implied that the board members are appropriately qualified, active and experienced in certain fields such as banking, law, accounting and social development. The highly skilled board is part of the overall strategic risk management strategy. The skilled board could have influenced the growth of MFI.

4.2.2 Board Roles

The study sought to find out if the board members roles extend beyond governance and into management of the MFI. The study findings in table 3 indicate that majority 40% of the respondents agreed while another 25% strongly agreed bringing to a total of 65% of those who agreed with the statement that the board members roles extend beyond governance and into management of the MFI. Meanwhile 22.5% respondents neither agreed nor disagreed and another 12.5% disagreed with the statement.

The findings concur with those in Fraser and Henry (2007), The Basel Committee (2004) and Chorafas (2001) who asserted that the board roles should be such that they extend beyond governance to management of the MFI so as to facilitate the management of strategic risks. The findings also agree with those in Kombo et al (2011) who asserted that the board roles should extend beyond governance to facilitate the management of strategic risks.

The findings imply that the board members roles extend beyond governance and into management of the MFI. This implies that MFIs have in place an effective board that strives for the growth of the MFI. Extensive Board member roles could have influenced the growth of MFIs.

4.5.3 Board Members Agreement on the MFI's Mission and Strategic Direction

The study sought to find out if all board members agree on the MFIs mission and strategic direction. Results in table 3 reveal that 45% of the respondents agreed while another 25% strongly agreed bringing to a total of 70% of those who agreed with the statement that all board members agree on the MFIs mission and strategic direction. Meanwhile 30% of the respondents neither agreed nor disagreed with the statement.

The findings concur with those in Kirckpatrick (2009) and Tseng (2007) which asserted that board members should agree on the MFI mission and strategic direction in order to ensure fruitful working relations and effective monitoring and mitigation of strategic risks. The findings also concur with those in Hoyt and Liepenberg (2010) who asserted that board members should agree on the organization's mission and strategic direction in order to facilitate the achievement of the strategies.

The findings imply that all board members agree on MFIs mission and strategic direction. This may have reduced the boardroom fights ad created sense of cohesion and team work in the achievement of MFI goals. By extension, the boardroom teamwork could have influenced the growth of MFIs.

4.2.3 Existence of Independent Directors

The study sought to find out if the board has adequate independent directors. Table 3 indicates that 47.5% of the respondents agreed while another 17.5% strongly agreed bringing to a total of 65% of those who agreed with the statement that the board has adequate independent directors. Meanwhile 25% of the respondents neither agreed nor disagreed and another 10% disagreed with the statement.

The findings concur with those in Hoyt and Liepenberg (2010) and Tseng (2007) which assert that MFIs should engage independent directors so that they bring in a mixture of experiences and qualifications. The findings also agree with those in Arkolakis (2011) which assert that MFIs should engage independent directors so as to bring continuous productivity improvements.

The findings imply that the MFIs under study had independent directors and this may have reduced the probability of exposure to governance risks. The status of Governance risk management is part of the overall strategic risk management strategies and it may have influenced the growth of MFIs.

4.2.4 Frequency of Board Meetings

The study sought to find out whether the board meets often. Results in table 3 reveal that majority 57.5% of the respondents agreed while another 17.5% strongly agreed bringing to a total of 75% of those who agreed with the statement that the board meets often. Meanwhile 20% respondents neither agreed nor disagreed and another 5% disagreed with the statement.

The findings concur with those in Kombo et al (2011) and CBK (2010) which assert that MFIs whose board holds frequent board meetings are able to identify strategic risks in time and find solutions for them. The findings further concur with those in Mokoro et al (2010) which asserted that financial organizations should hold frequent board meetings in order to identify any risks and offer solutions for them in good time.

The findings imply that the MFIs under study have frequent board meetings. This further implies that MFI have effective corporate governance systems. The existence of effective corporate governance may have reduced governance risk exposures and contributed to the achievement of the overall strategic risk management strategy.

4.2.5 Board Committees

The study sought to establish whether the board has set up various committees. Table 3 reveals that 42.5% respondents agreed while another 35% strongly agreed bringing to a total of 77.5% of those who agreed with the statement that the board has set up various committees. Meanwhile 12.5% respondents neither agreed nor disagreed and another 10% disagreed with the statement. The findings concur with those in Mokoro et al (2010), Chorafas (2001), Kimball (2000) and Morris (2000) which assert that organizations should ensure that the board has set up various committees which are supposed to ensure that the work of the board is properly distributed.

The findings imply that the MFIs under study had set up various board committees. The setting up of board committees is an indicator of effective corporate governance practices. The effectiveness of corporate governance practices may have reduced the governance risk of MFIs and contributed to the achievement of the overall strategic risk management strategy

4.2.6 Board Term Limits and Rotation

The study sought to find out whether the board has policies stipulating term limits and rotation for its members. As illustrated in table 3, 35% respondents strongly agreed while another 35% agreed bringing to a total 70% of those who agreed with the statement that the board has policies stipulating term limits and rotation for its members. Meanwhile 20% of the respondents neither agreed nor disagreed and another 10% disagreed with the statement. The findings concur with those in Kombo et al (2011), GTZ (2000) and CBK (2010) which assert that good governance requires that the board members should be subject to term limits and rotation.

The findings imply that the MFIs under study have policies stipulating term limits and rotation for its members. The rotation of members is an indicator of good governance in MFIs and this may have contributed to the achievement of the overall strategic risk management strategy. The achievement of the strategic risk management strategy may have influenced the growth of MFIs.

4.2.7 Guidelines on Conflicts of Interest

The study sought to find out whether the MFI has guidelines preventing conflicts of interest among board members. The findings in table 3 indicate that 42.5% of the respondents agreed while another 40% strongly agreed bringing to a total of 82.5% of those who agreed with the statement that the MFI has guidelines preventing conflicts of interest among board members. Meanwhile 12.5% of the respondents neither agreed nor disagreed and another 10% disagreed with the statement.

The findings concur with those in GTZ (2000), Kimball (2000) and Gilbert (2007) which asserted that an effective strategy to safeguard against conflicts is for MFI to establish a good working relationship based on open communication thus ensuring full understanding of the board transactions and provide an opportunity to defuse any potential problems.

The findings imply that the MFIs under study had guidelines preventing conflict of interest among board members. This in effect ensures that board members act in the best interest of the MFI. The guidelines preventing conflict of interest may have influenced the growth of MFIs.

4.2.8 Guidelines Prohibiting Related-Party (Insider) Lending

The study sought to find out whether the MFI guidelines prohibit related-party (insider) lending, require full disclosure of all conflicts of interest, and require arm's length business transactions. Table 3 reveals that 47.5% of the respondents strongly agreed while another 37.5% agreed bringing to a total of 85% of those who agreed with the statement that the MFI guidelines prohibit related-party (insider) lending, require full disclosure of all conflicts of interest, and require arm's length business transactions. Meanwhile 7.5% respondents neither agreed nor disagreed and another 5% disagreed with the statement. The findings concur with those in Gilbert (2007), CFSI(2011) and CBK (2010) which asserts that the MFIs guidelines prohibit related party lending require full disclosure of all conflicts of interest and require arm's length business transactions.

The findings imply that the MFIs guidelines prohibit related party (insider) lending, require full disclosure of all conflicts of interest and require arm's length business transactions. The existence of guidelines prohibiting related party (insider) lending is an indicator of effective strategic risk management strategies.

4.2.9 Investment in Organizations owned by Board Members

The study sought to establish whether the MFI doesn't have some of its invested funds in a financial institution or other company in which a board member has significant ownership. The study findings in table 3 revealed that majority 40% of the respondents agreed while another 20% strongly agreed bringing to a total of 60% of those who agreed with the statement that the MFI doesn't have some of its invested funds in a financial institution or other company in which a board member has significant ownership. Meanwhile 25% of the respondents neither agreed nor disagreed and another 15% disagreed with the statement.

The findings concur with those in Kombo et al (2011), CBK (2010), Ekka Chaudhary and Sinha (2011), who asserted that the MFIs don't have some of its invested funds in a financial institution or other company in which a board member has a significant ownership. The findings imply that the MFIs do not have some of its invested funds in a financial institution or other company in which a board member has significant ownership. This further implies that MFIs have put in place governance practices and this may have influenced the growth of MFIs.

4.2.10 Criteria for Awarding Loans to Board Members

The study sought to find out whether loans to board members is allowed but the criteria for eligibility and loan size is the same as for all borrowers. As illustrated in table 3, 35% of the respondents agreed while 15% strongly agreed bringing to a total of 50% of those who agreed with the statement that loans to board members is allowed but the criteria for eligibility and loan size is the same as for all borrowers. Meanwhile 37.5% respondents neither agreed nor disagreed and another 12.5% disagreed with the statement.

The findings concur with those in Christen, Elisabeth and Robert (1995), GTZ (2000) and CBK (2010) which assert that the criteria for awarding loans to board members is the same as for all borrowers. The findings are also in line with those in Diamantini (2010) which asserted that transparent operations facilitate effective risk management.

The findings imply that the criteria for awarding loans to board members are the same as for all borrowers. This further implies that there is no favoritism in awarding loans. This is also an indicator of good governance. The existence of good governance may have influence the growth of MFIs.

4.2.11 Outstanding Debts for Board Members on their Loan Repayment

The study sought to find out whether all board members are current on their loan repayment. Results in table 3 indicates 52.5% agreed while another 25% strongly agreed bringing to a total of 72.5% of those who agreed with the statement that all board members are current on their loan repayment. Meanwhile 17.5% of the respondents neither agreed nor disagreed and another 5% disagreed with the statement.

The findings are in line with those in GTZ's (2000), Ndulu (2010) and CBK (2010) which asserted that transparent operations facilitate effective risk management. They also noted that if an MFI's operations are transparent, then staff and management can quickly and easily identify and control risks before they pose a significant threat to the institution Operations are transparent when information is clearly and accurately reported and readily available for all who need it to make decisions or to assess institutional performance. The findings imply that the all boards' members with outstanding debts are current on their loan repayment. This is an indicator of good governance. The practice of good governance may have influenced the growth of MFIs.

4.2.12 Role of Organizational Structure in Ensuring Staff Accountability

The study sought to find out whether the MFI's organizational structure ensures staff accountability. The study findings in table 3 reveal that 60% of the respondents agreed while another 25% strongly agreed with the statement that the MFI's organizational structure ensures staff accountability. Meanwhile 10% respondents neither agreed nor disagreed and another 5% disagreed with the statement.

The findings agree with those in Pandey (2007), ACCA (2012) who asserted that the MFI should put in place organizational structures that ensure staff accountability. The findings are in line with those in Ekka Chaudhary and Sinha (2011) who asserted that a number of good practices have emerged that promote responsible and inclusive lending and relate to several aspects of institutional management and governance. The findings imply that the MFIs organizational structure ensures staff accountability. The finding further implies that the accountability brought about by an effective organizational structure could have contributed to the growth of MFIs.

4.2.13 Role of Organizational Structure in Enhancing the MFI's Efficiency and Productivity

The study sought to find out if the organizational structure enhances the MFI's efficiency and productivity. The study findings in table 3 indicate that 50% agreed while 22.5% strongly agreed bringing to a total of 72.5% of those who agreed with the statement that the organizational structure enhance the MFI's efficiency and productivity. Meanwhile, 25% of the respondents neither agreed nor disagreed and another 2.5% disagreed with the statement.

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Table 3: Strategic Risk Management Strategy

	Strongly Disagree (%)	Disagree (%)	Neither Agree nor Disagree (%)	Agree (%)	Strongly Agree (%)
The board have the skills and ability to lead the MFI strategically	0	7.5	7.5	52.5	32.5
The board members' roles extend beyond governance and into management of the MFI	0	12.5	22.5	40	25
All board members agree on the MFI's mission and strategic direction	0	0	30	45	25
The board has adequate independent directors	5	5	25	47.5	17.5
The Board meets often	2.5	2.5	20	57.5	17.5
The board has set up various committees	5	5	12.5	42.5	35
The board has policies stipulating term limits and rotation for its members	5	5	20	35	35
The MFI has guidelines preventing conflicts of interest among board members	2.5	2.5	12.5	42.5	40
The guidelines prohibit related-party (insider) lending, require full disclosure of all conflicts of interest, and require arm's length business transactions	2.5	5	7.5	47.5	37.5
The MFI doesn't have some of its invested funds in a financial institution or other company in which a board member has significant ownership	7.5	7.5	25	40	20
Loans to board members are allowed but the criteria for eligibility and loan size is the same as for all borrowers.	2.5	10	37.5	35	15
All board members are current on their loan repayment	2.5	2.5	17.5	52.5	25
The MFI's organizational structure ensure staff accountability	0	5	10	60	25
The organizational structure enhance the MFI's efficiency and productivity	0	2.5	25	50	22.5

The findings concur with those in Tseng (2007) which asserted that MFIs should enhance implementation of an organizational structure that can enhance strategic firm performance. The findings are in line with those in Ekka Chaudhary and Sinha (2011) who asserted that a number of good practices have emerged that promote responsible and inclusive lending and relate to several aspects of institutional management and governance. The study findings imply that the MFIs organizational structures ensure accountability, efficiency and productivity in all processes. The findings imply that the MFIs under study have an organizational structure that enhances the MFIs efficiency and productivity. The existence of an organizational structure that facilitates strategic performance may have influenced the growth of MFIs.

4.3 MFI Growth Indicators

The study sought to determine the growth of MFI sector in Kenya. The specific elements of growth that were investigated included the following; increase in capital base, increase in the loan portfolio/Turnover, increase in the number of employees, increase in branch network, and attainment of registration with CBK as a DTM.

4.3.1 Increase in Capital Base

The study sought to determine whether the MFI has experienced increase in capital base. Results in table 4 reveal that that 45% of the respondents agreed while 37.5% strongly agreed, bringing to a total of 82.5% indicated that the MFI has experienced a significant increase in capital base. Results also reveal that 17.5% of the respondents could not make up their minds on the statement. The findings concur with those in Mckelvie and Wiklund (2010) which asserted that firm's growth may be defined as an outcome or process. The findings also concur with CBK (2010) and Ndulu (2010) which note that MFIs in Kenya have experienced an increase in capital base. The findings imply that the MFIs under study have grown by increasing in capital base. The growth in capital base could have been as a result of attempting to comply with regulatory requirements on capital adequacy. The growth could also be attributed to the enterprise risk management strategies employed by MFIs.

4.3.2 Increase in the Loan Portfolio/Turnover

The study sought to determine whether the MFI has experienced increase in the loan portfolio or turnover. Results in table 4 revealed that 60% agreed while 25% strongly agreed bringing to a total of 85% of the respondents who agreed with the statement that the MFI has experienced a significant increase in the loan portfolio or turnover. Results further reveal that 15% of respondents could not make up their mind on the statement. The findings concur with those in Delmar (1998) who asserted that growth of micro finance may be measured through the growth of individual micro finance institutions and changes in the loan portfolio. The findings agree with those in Financial Sector Deepening (FSD) (2012), CBK (2010) and in Association of Microfinance Institutions of Kenya (2011) which noted that MFIs have increased their loan portfolios. According to AMFI (2011), MFIs serves over 6.5 million clients with an outstanding loan portfolio of over US $ 310 million. The finding imply that MFIs have grown in terms of loan portfolio and this could be attributed to expansionary policies pursued by the government, the improved macroeconomic environment, the desire by the government to improve financial inclusion and deepening and the enterprise risk management strategies employed by MFIs.

4.3.3 Increase in the Number of Employees

The study sought to determine whether the MFI has experienced increase in number of employees. The study findings in table 4 revealed that 40% of the respondents strongly agreed while a further 35% agreed bringing to a total of 75% of those respondents who agreed with the statement that the MFI has experienced a significant increase in number of employees. Results also reveal that 20% could not make up their mind while 5% disagreed with the statement. The findings agree with those in Barkham (1996) who asserted that growth of micro finance can be measured through the growth or changes of workforce. The findings also agree with those in Omino (2005) and CFSI (2011) which noted that MFIs have grown through the increase in number of employees. The findings imply that the MFIs under study have experienced a significant increase in number of employees. The growth of MFIs as shown by number of employees could have been attributed to the enterprise risk management strategies employed by MFIs.

4.3.4 Increase in Branch Network

The study sought to find out whether the MFI has experienced an increase in branch network. The findings in table 4 reveal that 47.5% of the respondents agreed while another 32.5% agreed bringing to a total of 80% of those respondents that agreed with the statement that the MFI has experienced a significant increase in branch network. Results also reveal that 12.5% of respondents could not make up their mind while 7.5% of respondents disagreed with the statement. The findings agree with those in McKelvie and Wiklund (2010) who asserts that growth of microfinance sector will be measured through the growth of individual micro finance institutions and changes in branch network. The finding also agree with those in Ndungu (2010) and Ngigi (2010) which note that MFIs have increased their branch network in order to effectively meet the financial demands of borrowers. The findings imply that the MFIs under study have experienced a significant increase in branch network. The growth in branch network could be attributed to the enterprise risk management strategies employed by MFIs.

4.3.5 Attainment of Registration with CBK as a DTM

The study sought to determine whether the MFI has attained registration with CBK as a DTM deposit taking microfinance institution. Results in table 4 revealed that 42.5% of the respondents agreed while a further 22.5% strongly agreed with the statement that the MFI has attained registration with CBK as a deposit taking microfinance institution (DTM). Results also reveal that 22.5% could not make up their mind on the statement while 12.5% disagreed with the statement. The study findings are in line with those of CBK (2010), Omino (2005) and Financial Sector Deepening (FSD) (2012) who asserts that MFIs sector has grown and this has been demonstrated by the registration of deposit taking MFIs and the conversion of non DTMs to fully fledged DTMs. The findings imply that MFI sector has grown as witnessed by the increase in number of registered DTMs and the conversion of non DTMs to fully fledged DTMs. This growth may have been as result of the enterprise risk management strategies that MFIs have put in place.

Table 4: MFI Growth Indicators

	Strongly Disagree (%)	Disagree (%)	Neither Agree nor Disagree (%)	Agree (%)	Strongly Agree (%)
The MFI has experienced a significant increase in capital base	0	0	17.5	45	37.5
The MFI has experienced a significant increase in the loan portfolio/Turnover	0	0	15	60	25
The MFI has experienced a significant increase the number of employees	0	5	20	35	40
The MFI has experienced a significant increase in branch network	2.5	5	12.5	47.5	32.5
The MFI has attained registration with CBK as a DTM	5	7.5	22.5	42.5	22.5

4.3.6 CEOs Response on Growth of MFIs

The CEO interviews sought to establish how the MFIs have handled growth and their preparedness to manage (often rapid) growth, in terms of staffing, products, and funding. The qualitative responses were organized into subthemes, analyzed quantitatively and presented in table 5. Results in table 5 reveal that 41.7% of respondents indicated that they were very much prepared for growth. 8.3% of respondents indicated that this was their third year and they were still developing systems as they moved along. Another 8.3% indicated that they were experiencing gradual growth through referrals from both shareholders and customers. Meanwhile, 16.7% indicated that they have handled growth through acquisition of additional capital and opening more branches, 8.3% indicated that they handled growth through emphasis on quality management on product and services, and 16% indicated that had experienced organic growth and were always prepared to adapt quickly to change.

The finding agree with those in Financial Sector Deepening (FSD) (2012), Ndungu (2010), Ngigi (2010) and Association of Microfinance Institutions of Kenya (2011) which noted that MFIs are prepared to manage growth and are always prepared to adapt quickly to change. In addition, they note that MFIs have managed growth by growing their customer base, quality product management and developing systems. The findings imply that MFIs have managed growth effectively by put in place effective systems, additional capital and opening more branches, developing and managing quality products and services. This further implies that MFIs have put in place effective enterprise risk management strategies to manage growth.

Table 5: CEO Response on how the MFIs have Handled Growth

CEO Response on how the MFIs have handled growth and their preparedness to manage (often rapid) growth	count	%
Yes. We are very much prepared to manage growth	5	41.7
This is our third year and we are still developing systems as we move along	1	8.3
Gradual growth through referrals from both shareholders and customers	1	8.3
Through acquisition of additional capital and opening more branches.	2	16.7
Emphasis on quality management on product and services	1	8.3
We have had an organic growth and we are always prepared to adapt quickly to change	2	16.7
Total	12	100

4.4 Relationship between Strategic Risk Management Strategies and Growth

Regression analysis was conducted to empirically determine whether strategic risk management strategies were a significant determinant of growth in MFIs. Regression results in table 6 indicated the goodness of fit for the regression between strategic risk management strategies and growth is satisfactory. An R squared of 0.251 indicates that 25.1% of the variances in growth are explained by the variances in the strategic risk management strategies.

The overall model significance is also presented in table 6. An F statistic of 12.720 is larger than the tabulated statistic of 4.08 (df1; 1, df2; 38, p value; 0.05). This is also supported by a probability value of 0.00. Since $F_{calculated} > f_{critical}$ and the reported probability of 0.000 is less than the conventional probability of 0.05 ($p\ value_{calculated} < p\ value_{critical}$), the overall model was significant. This also means that the independent variable (strategic risk management strategy) does a better job in predicting MFI growth compared to predicting MFI growth through its mean.

The relationship between strategic risk management strategies and growth is positive and significant (b1=0.169, p value, 0.001). The hypothesis was therefore accepted. This implies that an increase in the effectiveness of strategic risk management strategies by 1 unit leads to an increase in growth by 0.169 units. The regression equation is as follows;

$$Growth = 4.439 + 0.169\ Strategic\ Risk\ Management\ Strategy$$

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Table 6: Strategic Risk Management Strategy and Growth

Parameter estimate	Coefficient	P value
Constant	4.439	0.00
Strategic Risk Management Strategy	0.169	0.00
R Squared	0.251	
F statistic (ANOVA) (df ; 1; 38; 0.05)	12.720	0.00

Figure 1 is a diagrammatic representation of the relationship between strategic risk management strategies and MFI growth. The figure indicates that a positive relationship exists. Therefore, an increase in the effectiveness of strategic risk management strategies positively affects MFI growth. The findings agree with those in Basel Committee on Bank Supervision (2001), The Basel Committee (2004), GTZ (2000) and CBK (2010) which noted that effective strategic risk management strategies lead to positive growth of financial institutions.

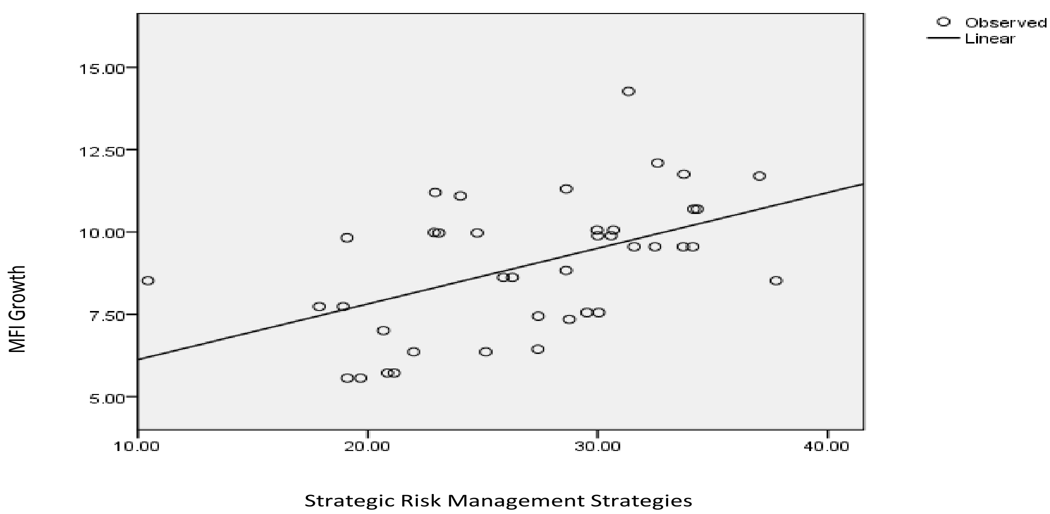

Figure 1: Strategic Risk Management Strategies and Growth

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The study sought to establish whether strategic risk management strategies contributed to growth of MFIs in Kenya. The findings indicated that there were several strategic management measures that had been put in place by MFI to promote growth. These included the existence of a board with the skills and ability to lead the MFI strategically. In addition, the board members roles extended beyond governance and into management of the MFI and the board had policies stipulating term limits and rotation for its members.

Results further indicated that the board had adequate independent directors who agreed on the MFIs mission and strategic direction. The results revealed that the MFI had guidelines for preventing conflicts of interest among board members and the MFI guidelines prohibited related-party (insider) lending, required full disclosure of all conflicts of interest, and required arm's length business transactions. Findings further indicated that the MFI's organizational structure ensured staff accountability and enhanced MFI's efficiency and productivity. Overall, regression results indicated that there was a positive relationship between strategic risk management strategies and MFI growth.

5.2 Conclusions

Findings led to conclusion that MFIs had effective risk management strategies that enabled the effective management of reputational and governance risks. It was inferred that the MFIs had constituted boards with the skills and ability to lead the MFIs strategically. Results led to the observation that the board members roles extended beyond governance and into management of the MFI The board had policies stipulating term limits and rotation for its members.

Study findings led to the conclusion that the board had adequate independent directors who agreed on the MFIs mission and strategic direction. The MFI had guidelines for preventing conflicts of interest among board members. The MFI guidelines prohibited related-party (insider) lending, required full disclosure of all conflicts of interest, and required arm's length business transactions. It was inferred that the MFI's organizational structure ensured staff accountability and enhanced MFI's efficiency and productivity. Overall, it was concluded that strategic risk management strategies have a positive effect on growth of MFIs.

5.3 Recommendations

Following the study results, it is recommended that the MFIs need to enhance effectiveness of strategic risk management practices such as adherence to best practices on corporate governance. In addition, the MFIs need to enhance the skills of the board members as doing so would improve the level of strategic risk management practice. The study recommended that those MFIs that had not implemented the guidelines for preventing conflicts of interest among board members are advised to do so as this may have an impact on the level of growth. It is recommended that MFIs need to put in place guidelines prohibiting related party (insider trading) and also require full disclosure of all conflicts of interest as doing so would improve the growth of the MFI. Furthermore, MFIs need to increase the number of independent directors in their boards as doing so would improve the growth of the MFIs.

5.4 Suggested Areas for Further Study

Further studies can be done on the area of environmental factors that influence the performance and growth of the MFIs. The models that would be used in such studies include PESTEL, Porters Five Framework. In addition further studies are recommended in the area of competitive strategies and strategic responses adopted by MFIs in an effort to counter environmental challenges. In addition, further studies may investigate the influence of demographic factors on the enterprise risk management strategies. For instance, are MFIs with a high male gender composition more likely to put in place effective strategic risk management strategies? What is the potential impact of capital base on strategic risk management strategies? Are DTMS more likely to grow faster than non DTMs? What is the impact of gender composition, experience, age of MFI employees on MFI growth? Studies may be carried out to find answers to these questions.

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