MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

EFFECTIVENESS OF GROWTH STRATEGIES ADOPTED BY MICROFINANCE INSTITUTIONS (MFIs) ON FINANCIAL PERFORMANCE:

A CASE OF MFIs IN MIDLANDS PROVINCE.

BY

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DEDICATION

This research project is dedicated to my late father, Mr C Kanukai for being the greatest inspiration of my life. Also to my lovely mother, my brothers and sister for their unwavering motivation and financial support during this difficult and important journey.

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ABSTRACT

Studies on performance of microfinance institutions (MFIs) has attracted a great deal of attention as they are registering a significant growth in the financial landscape. However most of these studies had focused much on social performance and best credit management practices and regrettably ignored the financial aspects. This is because predominantly, the main objective of MFIs was social mission focusing on poverty alleviation and financial inclusion, however the 21st century signifies a drift from social mission to profit maximization hence the call to consider financial aspects. Growth strategies are key performance drivers yet little attention has been given to their influences. MFIs are engaging in market expansion overdrive giving birth to intense and unhealthy competition that is not bringing positive results to both the institutions and stakeholders. Against this backdrop, the sustainability of these institutions is threatened hence this study examined the effectiveness of growth strategies adopted by microfinance institutions on profitability in Midlands province. Return on Assets (ROA) and Return on Equity (ROE) were used as profitability measures while number of branches was used to determine growth strategies adopted. Literature put forward by different scholars regarding the influence of growth strategies on organization's performance was critically reviewed. The study applied descriptive research design to identify growth strategies adopted by MFIs in their pursuit for growth and correlational research design to examine the effectiveness of each growth strategy on profitability through the use of simple linear regression. Stratified random sampling technique was employed to adequately incorporate views from different angles since research subjects were drawn from different stratas (senior management and branch managers). Sample size of 79% of the target population was obtained from a list of appropriate sample sizes that are good enough to produce credible findings calculated by Krejcie and Morgan (1970). The study used both questionnaires and personal interviews to collect relevant data to ensure that validity and reliability was achieved. Findings from the study revealed that MFIs chose to go it alone by opting for organic growth with most of them pursuing market development growth strategy. Market growth strategy proved to be ineffective on profit enhancement in microfinance context, rather it causes intense and unhealthy competition hurting both parties (Institutions and stakeholders). Results from the study revealed that there is a relationship between age of MFI and the growth strategy pursued, where most young aged MFIs are investing much in market growth while the old horses appreciate market penetration growth strategy. The results also indicated that product growth strategy is an effective path of growing that yields more returns whilst market penetration proved to have insignificant impact on profitability. In light of study findings, it is therefore recommended that MFIs should consider inorganic growth strategies such as mergers to do away with disruptive competition. Furthermore, MFIs are also recommended to embrace product development growth strategy to realize significant financial growth associated with high degree of operational efficiency and sustainability. In addition, young aged MFIs are recommended not to over invest in growing the market but rather on creating a strong bond with their clients by investing in developing a variety of products.

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RBZ- Reserve Bank of Zimbabwe

MFIs- Microfinance Institutions.

SMES- Small and Medium Enterprises

ROA- Return on Assets.

ROE- Return on Equity.

FSS- Financial Self Sufficiency.

OSS- Operational Self Sufficiency.

CHAPTER 1

GENERAL INTRODUCTION

1.0 Introduction

Every organization on earth in one way or the other pursue a growth strategy and that strategy affects its financial performance in either way. This chapter chronicles the background of the study, statement of the problem, research objectives and questions. It will also focus on the significance of the study, delimitations as well as limitations to the study. It then concludes with a list of definition of terms and a chapter summary.

1.1 Background of the study

The 21th century signifies undeniable substantial growth of microfinance sector worldwide. Interestingly, these microfinance institutions (MFIs) are becoming more visible in the financial landscape and it is becoming increasingly more difficult to ignore the sector given the critical role it plays in enhancing inclusive growth. Yenesew, (2014) suggested that the microfinance sector is the game changer in the new global economy, therefore it is essential to study MFIs' growth strategies as they determine how these institutions will continue to operate as a going concern. It is a common practice that if a company commence its operations, it has to grow and the question of which growth strategy to pursue lies in the hands of management. In that regard, rapid increase of MFIs in Zimbabwe is a matter of interest that requires attention to ensure sustainability and financial health of these institutions.

The Reserve Bank of Zimbabwe (RBZ) (2015) reported 103% market growth of MFIs evidenced by increasing number of outlets from 281 branches in 2012 to 571 as at 31December 2015. However, despite this praiseworthy growth, the major challenge remains the affordability of MFIs services emanating from intense competition and cost inefficiency instigated by growth strategies in pursuit which signals a central focus on grabbing geographical market share. Wharton (2013) asserted that competitor-oriented objectives like setting market share targets are counter-productive therefore have adverse effects on firm's profitability. Toyota, the world car manufacturer giant was taught this good lecture the hard way between 2002 and 2010 when it experienced a dramatic fall of revenues. This was after it set an ambitious market growth of grabbing 15% of global auto market share between 2002 and 2010, a move that comprised its product quality and costs its reputation (Maynard and Tabuchi, 2010). This proves that pursuing a wrong growth strategy in business is a good recipe for disaster.

Rapid significant market growth of MFIs has created stiff competition leaving the society worse off, in a more miserable and painful situation. Economic theory speculates that competition give consumers more choices by forcing the provider to rethink about the strategies on how to improve product quality, reduce costs and to be more innovative. This is not the case with MFIs in Zimbabwe as interest rates remains exorbitant at around 20% per month according to RBZ (2015). Over and above that, most of these MFIs are microcredit institutions offering short term loans to civil servants only thereby exposing themselves to concentration risk. Little attention has been given to these adverse effects prompted by growth strategies that gave birth to disruptive competition. Competition in MFIs is neither bringing down prices nor improving product quality as expected. Instead, these institutions are exploiting the already bleeding pockets of low income earners, particularly civil servants by persistently charging high interest rates raising eyebrows on MFIs' commitment to the objective of inclusive growth.

Huni (2015) reported that, most MFIs are pursuing market growth oriented objectives while others are quitting citing unsustainable business environment, A view supported by Registrar of MFIs at RBZ (Mataruka, 2015). Statistics shows that between December 2014 and March 2015, 4 MFIs had quitted and another 3 between September and December 2015. This brings in a question of why some institutions are quitting when the industry is perceived to be so profitable? Is it really unsustainable business environment or they are pursuing a wrong strategy? This is the researcher' blind spot. Growing business is good but it makes more economic sense if complemented by high quality portfolio and competent management capable of managing it. In addition, adequate resources in terms of financial, human and equipment are also required and should be used to their optimum for the business to operate profitably. In this regard, if the MFI make market share a central focus, the question will always be; how fast can this MFI go in grabbing market share without hurting the future and profitability of the company?

Studies by Goedhuys and Veugelers (2008) shows that process and product innovation are significant drivers for firms' growth, failure do so hurt financial performance and threatens sustainability. Interestingly, the situation in MFIs seems to defy the findings, registering a significant growth while most of them are one product institutions. In light of this development, the question that boggles the mind is, are these institutions financially health to sustain themselves? Table 1.1 below shows the key performance indicators of MFIs.

Table 1.1. Key performance indicators of microfinance institutions.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Number of licensed institutions	147	143	147	155	152
Total Loans ($Millions)	$156.99	$163.53	$162.20	$173.31	$187.16
Number of Active clients	205282	189028	224300	198371	202242
Average loans per client	$765	$865	$723	$873	$925
Percentage change		13%	-16%	21%	6%
Number of branches	473	499	495	475	571
Percentage change		6%	-0.8%	-4%	20%
Average number of clients per branch	434	379	454	418	354
Percentage change		-13%	20%	-8%	-15%
Average loan per branch ($)	331903	327715	327676	364863	327776

Source: *RBZ Microfinance industry report (2015)*

Table 1.1 above indicate that an increase in branch network is not positively related to an increase in customers. Taking for example between September and December 2015, number of branch outlets increased by 20% from 475 to 571 while average number of clients declined by 15% from 418 to 354. This raises too many questions with too few answers on growth strategies adopted by these institutions. In addition, an increase in average loan per clients by 6% from $873 to $925 indicates a reduction in clientele base and a compromise on credit worthiness assessments which increases default risks and over-indebtedness. This eventually led to high levels of non-performing loans which according to Mhlanga (2016) stood at 16.05% as at September 2015.

Schicks and Rosenberg, (2011) stated that increased competition force MFIs to maintain their clientele base by compromising screening standards, accepting higher risk borrowers and thus leads to a decline in repayment and higher default rates. To make matters worse, this created battles for clients amongst MFIs to the extent that they do not share information concerning their clients. By so doing, it opens up avenues for clients to take multiple loans from different MFIs which also cause repayment problems and this contributes to high level non-performing loans which is fluctuating above international acceptable standard of 5%. All these are attributes of competition created by over investing in grabbing geographical market share while turning a blind eye on other productive growth strategies associated with operational efficiency and effectiveness.

A number of empirical researches had focused much on credit risk management in microfinance sector to find a lasting solution on high default risk (Alshatti, 2015; Njanike, 2009; Kithinji, 2010; Moti, 2012; Belay, 2013). However, too little attention has been given to financial performance and growth strategies on this sector. Given that MFIs had drifted from social mission of enhancing financial inclusion and poverty alleviation to be profit oriented institutions, there is a need understand the relationship between growth strategies and profitability. This is done to ensure that these MFIs remain financially healthy and continue to serve their purpose of enhancing inclusive growth.

Financial self- sustenance and operating efficiencies are key indicators of how financially healthy a MFI is and every institution desires to be financially sound and sustainable. Regrettably, MFIs are troubled by high levels of non-performing loans threatening their sustainability and achievement of objectives. This is partly caused by disruptive competition hence it requires attention. Lack of product innovation, high interest charged to cater for cost- inefficiency and reports from central bank that some MFIs are failing to renew operating licenses while others are closing outlets citing unfavorable economic conditions are matters of concern. These challenges are attributed to growth strategies adopted by MFIs yet little attention has been given to that. It is against this background that the researcher sought to shine a new light on growth strategies adopted by MFIs in Midlands Province and their effect on financial performance.

1.2 Problem statement

The misnomer that there is positive correlation between market expansion and profitability has caused unhealthy competition in microfinance sector (Yenesew, 2014). Growth strategies are formulated with too much ambitions for grabbing large market so as to realize more profits. This has in turn created cost inefficiency, a blow for realizing the intended profits. To cover for these costs, exorbitant interest rates are being charged, raising many questions on MFIs’ commitment to achieve inclusive growth. Rapid market growth of 103% between 2012 and 2015 signifies a central focus on market growth. Additionally, most of these MFIs are one product organizations, signaling lack of innovation. Wharton (2013) states that too much focus on grabbing market share from competitors have detrimental effects on firm's performance and can even threatens firm's existence if not properly managed. Is this the reason why some MFIs are quitting the industry?

1.3 Statement of Hypothesis

***H_0*-**There is no relationship between growth strategies and profitability in MFIs.

***H_1*-**There is relationship between growth strategies and profitability in MFIs.

1.4 Research objectives

- **Main objective**

To assess the effectiveness of growth strategies adopted by MFIs on profitability.

- **Sub objectives**

1.4.1 To identify growth strategies being used by MFIs.

1.4.2 To examine the effectiveness of market development as a growth strategy on profitability in MFIs.

1.4.3 To examine the effectiveness of product development as a growth strategy on profitability in MFIs.

1.4.4 To examine the effectiveness of market penetration as a growth strategy on profitability.

1.5 Research questions

1.5.1 What is the growth strategy adopted by your organization?

1.5.2 How effective is market development growth strategy on company's profitability?

1.5.3 How effective is product development as a growth strategy on company's profitability?

1.5.4 How effective is market penetration as a growth strategy on company's profitability?

1.6 Significance of the study

1.6.1Theoretical importance

A considerable amount of literature in the field of microfinance sector had focused much on measuring performance of MFIs on the basis of social performance and best credit management practices (Triki and Faye, 2013; Klapper et al 2012; Consultative Group to Assist the Poor (CGAP), 2012). This was so because initially the major objective of these institutions was social mission of poverty alleviation and financial inclusion. In that regard performance was measured using breadth of outreach which is the extent to which the institution is enhancing financial inclusion. Breadth of outreach is measured by the number of active clients at a given period of time. A microfinance with the highest figure was then regarded as best performer.

This game of numbers had then triggered these institutions to adopt market development as a growth strategy and little or no emphasis has been put on the effects of that on financial performance. This study adds value to the current body of knowledge by critically analyzing the relationship between growth strategies and financial performance, taking into account the breadth of outreach. This avoids situations where the entity becomes technically insolvent whilst its outreach performance is commendable. In addition, this study provides recommendations on the best growth strategy to adopt in order to avoid disruptive competition that's hurts company's profits.

1.6.2 Practical importance

Various stakeholders comprised of microfinance institutions, government and the society at large will benefit from this research since it will help the organizations to adopt growth strategy which enhances financial self-sustenance. This ensures that MFIs remains visible and continue to play their significant role in the economic growth.

1.6.2.1 Microfinance institutions

Microfinance institutions will practically benefit for this study in the sense that it helps them to adopt a growth strategy that does not have adverse effects on financial performance. Considering that these institutions have been commercialized to become profit oriented, it is important to ensure that when managers formulate strategic decision like growth strategy, they consider the resources available and the MFI's capabilities to come up with appropriate strategy. This avoids a situation where MFIs adopt a growth strategy that threaten financial performance. In addition, this study will help MFIs in avoiding unhealthy competitions which stifles the performance of the sector and leave the society worse off. Competition that do not bring positive results to the organization and the society it serves is disruptive.

1.6.2.2. Society

The major role of the microfinance institutions is to provide financial services to the previously excluded group at an affordable cost so that inclusive growth can be achieved. The best growth strategy will ensure a win-win situation between the institutions and society since interests charged are attributes of growth strategy in place. Against this background, the society will benefit from this study by accessing a variety of financial services at an affordable cost. This is because if the

MFIs adopts a best growth strategy, it will not charge exorbitant interest rates to cover for cost-inefficiency.

1.6.2.3. Government

The study will highlight the best growth strategy at a certain stage that ensures that these institutions are profitable and continue to play critical role in ensuring inclusive economic growth. In this regard, research will help in enlarging tax base since taxes are charged on profits. The more these MFIs adopt the appropriate growth strategy that is financially viable and profitable, the more the government will realize revenues collection, otherwise a poorly formulated growth strategy causes miserable performance that eventually take the institution out of industry hence reducing tax base. Furthermore, well formulated growth strategy ensures sustainability of MFIs meaning more people will be employed hence an increase in GDP per capta.

1.7 Delimitation

1.7.1 Time

The period covered in this study is from 2012 to 2015. This allows the researcher to critically asses the effectiveness of growth strategies on financial performance.

1.7.2 Geographical

The study focuses on assessing the effectiveness of the growth strategies adopted by MFIs in Midlands province of Zimbabwe.

1.7.3 Conceptual

The research focused on examining the effectiveness of growth strategies adopted by MFIs on financial performance. Institutions use internal or external growth strategies therefore this study will focus on both strategies in the context of MFIs.

1.7.3.1 Conceptual framework

Conceptual framework is a written or visual presentation that explains either graphically or in narrative form the main things to be studied such as key factors, concepts and variables and their presumed relationships (Vaughan, 2008). This study focused on effectiveness of in growth strategies on profitability in MFIs. In this regard the framework highlighted independent variables (growth strategies) and intervening factor (competition) and the dependent variable which profitability measured by ROA and ROE.

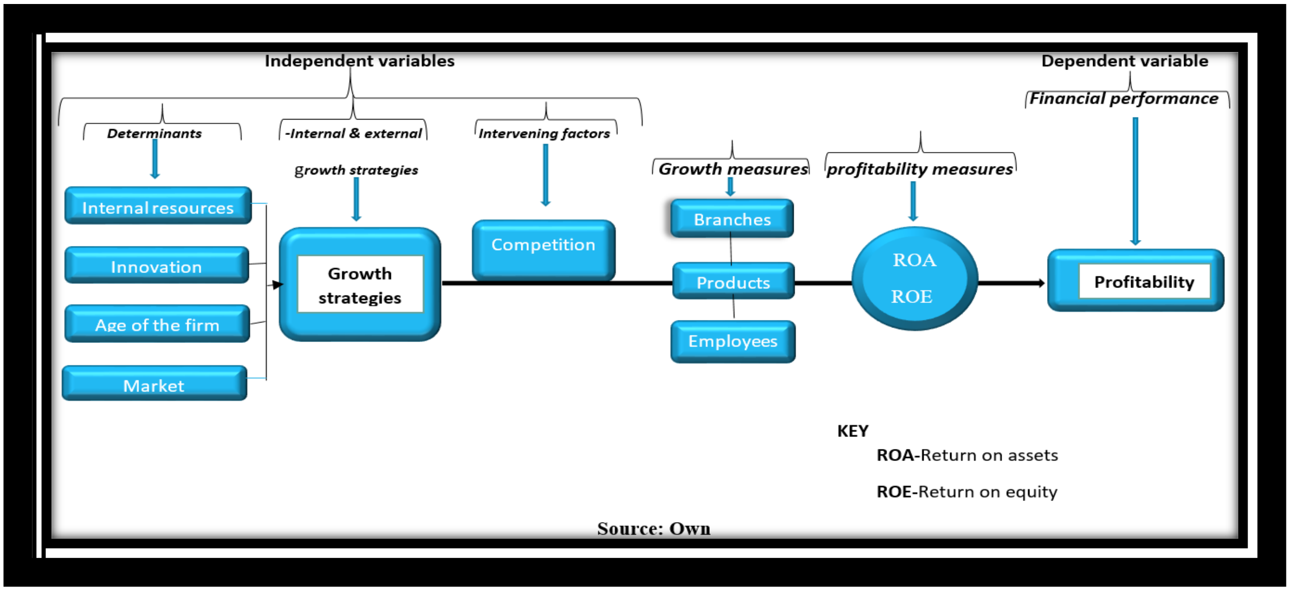


Figure 1.1. Conceptual framework

1.8 Limitations

The research encounters the limitation of data collection due to respondent's busy work schedules since the research subjects were managers. However most of the research subjects was in Midlands province that was easily accessed by the researcher therefore data collection was done in different days. Another limitation was unwillingness of the respondents to divulge sensitive such as financial related information for security reasons. To deal with that, the researcher assured respondents in person that their information will be treated with strictest confidentiality and used for academic purposes only. The researcher also produced a letter from Midlands State University to assure respondents that in indeed, data collected was for academic purposes.

1.9. Assumptions

1.9.1 It is assumed that all research subjects responded in utmost good faith by providing relevant information.

1.9.2 The data sources were reliable and it gave accurate information that enabled the researcher to produce credible results.

1.10. Definition of key terms

1.10.1 **Growth strategy** is the business model used by organizations to grow physically and financially.

1.10.2 **External growth strategy**-refers to growth of business by the way of mergers, takeovers and acquisitions.

1.10.3 **Internal growth strategy-** the rate of business growth achieved by increasing output and sales using internal resources of the firm without external help in form of mergers, acquisitions and take-overs

1.10.4 **Financial performance-** refers to a level of business performance over a specified period of time expressed in monetary terms.

1.10.5 **Market development strategy-** refers to seeking new customers in new geographical areas for the existing products.

1.10.6 **Product development strategy-**is improving the existing current products to suit the current market and introduction of new products or new uses of the current products.

1.10.7 **Microfinance-**is a provision of financial services to low income clients who traditionally lack access to banking and related services.

1.10.8 **Concentration risk –**refers to the risk posed to an institution by focusing on providing a single product or single market which have the potential to produce losses large enough to threaten the ability of the institution to continue operating as a going concern.

1.10.9 **Unhealthy competition** is a situation where competition brings out the worst that has negative effects on the institutions.

1.12 Chapter summary

This chapter revealed the background to the study by explaining what triggered the research. Objectives and questions which the study seeks to answer are also highlighted in this chapter. The importance of carrying out this study have been stated to justify why the study should be carried out and how various stakeholders will benefit out of it. Assumptions, limitation and delimitation with regards to assessing the effectiveness of internal growth strategies adopted by MFIs on financial performance have been laid out in this chapter.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

The chapter seeks to extensively analyses the existing literature in regard to growth strategies and how it influences financial performance of microfinance institutions. It begins by laying out theoretical dimensions of growth strategies, and how effective are they on profitability. The chapter also looks at empirical studies that were conducted about growth strategies in line with their effectiveness on organizational performance.

2.1 Growth strategies.

In business language, growth is referred as a noteworthy increase in sales volumes, production capacity and production volumes. (Foster and Browne, 2006), in that regard growth strategy is then defined as a strategic plan formulated and implemented by the organization so as to improve its performance (Andrews 2011). An organization strategy consists of the business tactics and initiatives it implements to lure customers and deliver to their expectations so as to outshine competitors and to strengthen its market position (Mutia, 2013). According to Dalton and Dalton (2006) Company growth can be achieved by external growth, which is realized through mergers and acquisitions (M&As), and internal growth, which is achieved through using the available resources without external hand such as M&As. These are two main growth strategies that are regularly and simultaneously used by organizations. External and internal growth strategies require different skills and structure and also have different impact on firm's performance (McKelvie et al, 2006). External growth is broadening of client base in a way of mergers, acquisition and take overs and is typically considered the fast way of gaining market within a short period of time (Dalton 2006). On the other hand, internal growth strategy is when a firm grow using its internal resources which promotes spirit of corporate entrepreneurship and protects organization culture (Emefielie, 2008).

2.2 Determinants of growth strategies.

The growth strategy adopted by any firm is influenced by a number of factors which includes firm resources, need for innovation, age of the firm and the market in which the firm serves. Wiklund et al, (2009) pointed that given the volatile environment, small firms better positioned themselves to be innovative and to explore new focused strategies if and only they possess resources to do so.

This was supported by Alsos et al, (2006) arguing that levels of capital base and business growth are positively related. In that regard, the size of the firm usually determines the level of resources it possesses and therefore influence the path of growing the business has to follow. MFIs in Zimbabwe has recorded a significant growth, hence the need to study their growth strategies to see if they are sustainable enough.

Firms do not operate in a vacuum but in an environment where others are also doing the same business. This means that the market in which the firm is operating plays a significant role in the formulation of growth strategy because, some industry markets are highly concentrated while others are low concentrated, this makes the strategies that can be used to explore the market totally different (Buzzel, 2014). More so need for innovation to outsmart competitors is key in determining growth strategies. Schumpeter (1934) identified innovation as a key component in business growth. In agreement with the above scholars, firms gain competitive advantage by producing different and unique products from that of their competitors. Highly technological firms usually lead the innovation in business which gives them a better position and sustained competitive advantages. The levels of these determinants of growth strategies influences the management of firms to adopt either organic or inorganic growth strategies. MFIs provides financial serves to the poor therefore the need to adopt a growth strategy that enable them to charge affordable prices whilst they are also growing in terms of revenue and size. This study will therefore investigate if MFIs in Midlands province are taking into consideration these factors that influence growth strategies and how it is affecting their growth.

2.3 Internal growth strategies

This is the rate of business growth achieved by increasing output and sales using internal resources of the firm without external help in form of mergers, acquisitions and take-overs (Samara, 2007). This is in agreement with what Lockett et al., (2011) who referred internal growth strategy as development of inside resources to enlarge market share and increase sales. Internal growth is a slower way of growth due to resource limitation compared to M&A which integrates resources of the firms coming together and put them into good use and that enables them to exploit economies of scale (Thompson and Wright, 2005).

Ansoff (1957) developed growth aspects which comprises of market penetration, market development, product penetration and diversification that an organization can pursue. This gave birth to the so called Ansoff matrix or Ansoff box, a business analysis technique that provides framework, enabling growth opportunities to be identified and also to take into consideration the implication of growing a business using existing or new products and existing or new markets (Team FME, 2013). Internal growth is most common in organizations that have a desire to grow, however it is a slow growth process spread over a couple of years due to inadequate resources (Bruner, 2004). Scholars have adequately explained internal growth strategies which most firms use on their path to grow. The framework provided by Ansoff is one good technique that organizations use to formulate a brilliant growth strategy that does not hinder the fulfillment of company objectives and threaten it existence in future.

Empirical studies conducted by Yogo (2013) on Small and Medium Enterprise (SMEs) in Kenya, found that small business prefer internal growth strategies to external growth strategies. Similarly, a study carried out in Denmark by Rasmussen (2009) on SMEs produced the very same results where small business with the desire to grow opt to go it alone rather than to form strategic alliance with other organization. This is in line with Lockett et al., (2011)'s view which opines that many times, organizations go for inorganic growth only if they are facing challenges, otherwise organic growth is at the heart of most institutions. These empirical studies where carried out on SMEs but this study is specifically for microfinance sector in Midlands province. Rapid growth reported by RBZ (2015) on the microfinance sector calls for an attention on how these MFIs are growing and the implications of such.

2.3.1 Benefits of internal growth

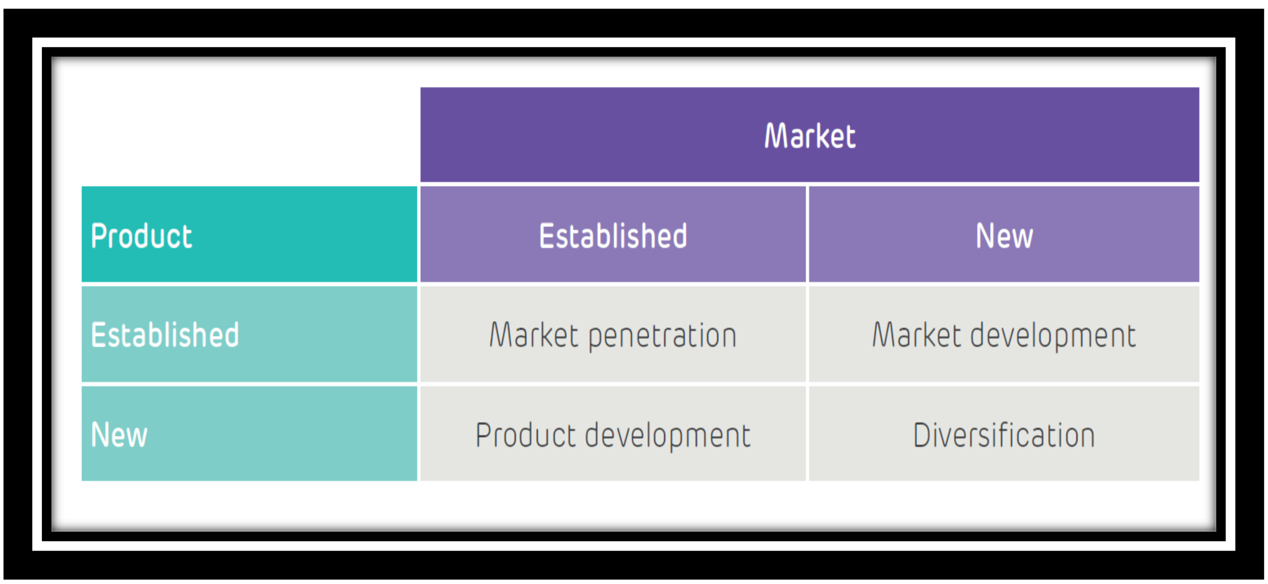
Organizations' managers will have a better understanding of their organizations hence they always make informed decisions when the firm grow internally. This encourages corporate entrepreneurship which in any case become source of sustainable competitive advantages (Emefielie, 2008). Additionally, cultures and values of the firm are protected hence the organization' process of creating value is not interjected unlike in inorganic growth such as mergers where firms have to dissolve their culture and core values. Companies that use internal growth strategies are flexible enough to make any decision in response to changes in external environments. Apart from that, the identity of the organization which differentiate it from others is maintained and this this the firm to produce goods that are unique from which it can charge premium prices.

2.3.2 Limitations of internal growth

Organic growth strategies are associated with slow pace of growth because of limited resources as compared to external growths strategies such as mergers and acquisition. They are also very little chances of exploiting benefits of economies of scale and access to technical expertise hence the firm is most likely to be outsmarted by those pursuing external path (Jeje, 2015). Limited resource associated with companies that follow organic growth is a big obstacle in firms' growth as suggested by Penrose (1959). Without necessary resource, the firm wont achieves even a steady growth. In addition, chances of venturing into new global markets are very slim with organic growth yet we are living in a global economy where any firm from any country can provide its products, as long as it follows the proper procedures. Against this background, firms pursuing organic growth are most likely to suffer from global competition that can stifle growth ambitions.

2.4 Ansoff matrix

Internal growth strategies from this study is drawn from Ansoff matrix proposed by Ansoff in 1957. The framework provides techniques in which organizations can use in making appropriate decisions in pursuit of growth. Figure 4.2 below shows the ansoff matrix.



	Market	
Product	Established	New
Established	Market penetration	Market development
New	Product development	Diversification

Figure 2.1 Ansoff matrix

Source: *Microfinance Growth in Europe (2007-2013)*

2.4.1 Market development growth strategy

Companies use market development strategy when it attempts to sell its present product line to new market segments, sometimes after few modifications of the product characteristics (Team FME, 2013). Market development involves selling the current products to new market segments, through new distribution channels, new product dimensions or packaging after a detailed market research and competitor intelligence (Team FME, 2013). Similarly, Jobber, (1998) shared the same view postulating that market growth strategy is seeking new customers for current products by moving into new geographical markets. However, such firms need a clear understanding of what the market really needs in terms of product or service technology and market geography in order to grab competitive advantage (Ansoff 1987). Additionally, Lynch, (2006) viewed market growth strategy as a low risk strategy based on adding value through repackaging, new segment market and selling same products/services in an improved new geographical market for revenue maximization.

Bruhn and Georgi, (2006) concurred with the above scholars asserting that market growth strategy in the context of microfinance services firms is when the MFIs focuses on providing existing services to new markets, striving for customer acquisition in the market segments which were not its previous market. In any event, a market growth strategy requires an in-depth intelligence of existing markets and the gaps in the market place that can be exploited to organization's advantage (Gaibler, 2009). In line with the above explanations, market expansion drive is very beneficial at the early stage when the market is not saturated provided the business has necessary resources. The firm achieves growth in terms of sales volumes from new markets segments entered. However, caution should be exercised when pursuing this strategy because firms end up grabbing market share at the expense of product/service quality. In microfinance context, MFIs that are following this path should not turn a blind eye on the services quality because loyalty of customers is to some extent leaned on how the firm value them. Figure 2.2 illustrates the important aspects that are required to implement a successful market expansion drive in business arena.

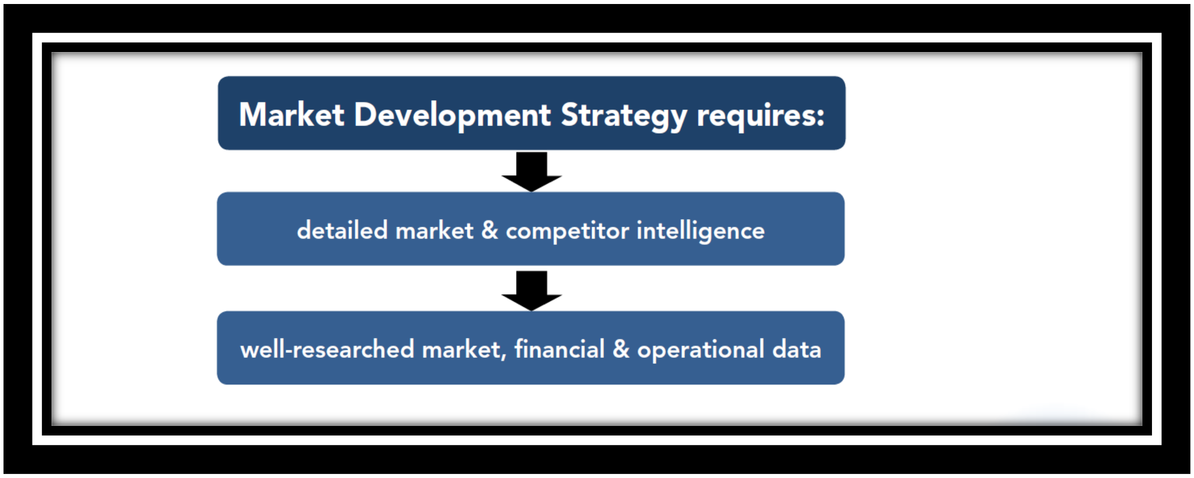


Figure 2.2 - Aspects of market development

Source: *Team FME, Ansoff matrix (2013)*

Scholars have explained well about market development as growth strategy however the researcher noted the scholars didn't emphasize that the strategy is very costly to the extent of threatening the sustainability therefore due diligence should be exercised during strategic formulations by the management. The process of acquiring detailed market information and competitor intelligence through marketing research requires money and will creates a loss in the event of strategy failure.

2.4.2 Product development strategy

Product growth strategy is when the firm come up with new products or improves the current products to suit the present markets (Jeje, 2015), If it is a firm providing services, this strategy is when a firm introduces new services for current market segments (Bruhn and Georgi, 2006). Ansoff (1965) claimed that this strategy is anchored on the basis of research and development (R&D), thoroughly assessing customers' needs and come up with a clear path of brand extension. Ansoff (1965) went on to say product development strategy is all about introducing new products that are closely associated with the existing products and it should match purchasing habits of current customers. Nielsen, (2006) concurred with the issue of research and development, noting that the world is full of endless possibilities if only thorough research is conducted, but some basic options such as packaging modification, color or size, introducing new uses or bundling existing products/services together and price reduction should be done in a way that create value for the customer.

The major advantage of this growth strategy is that, it encourages spirit of innovativeness that enables the firm to outshine competitors in battles of consumer's minds. Contextualizing this to microfinance business, customers go where they feel they are being valued in as far as the services being provided is concerned hence the firm that pursue this growth strategy gain competitive advantage in the market. In addition, product growth strategy has low risk as the product is related to the existing products that already have the market and at the same time it ensures effective utilization of human and financial resources.

While this product growth strategy sounds very certain, in reality its practicality is very difficult with its success lying on quality customer and competitor intelligence which requires money. It also requires Competitive advantages brought by information gathered and analyzed in relation to business segment and plan toward enlarging the market through promotions, distribution channels, and pricing strategy, while anticipated business profits are still sustained (Brown et al, 2008). The above definitions are very clear although the concept of maximum utilization of resources was not clearly explained. Availability of resources is the beginning of the whole deal; therefore, product development is based on the objective of optimal usage of resources to avoid underutilization of these resources and high levels of creativeness. Studies on product growth strategy were conducted on small and medium enterprises however this study will specifically look into microfinance sector to examine the effectiveness of this growth strategy. Figure 2.3 shows angles that are critical for the success of product development as a growth strategy.

Figure 2.3 – Aspects of product development.
Source: *Team FME, Ansoff matrix (2013)*

2.4.3 Market penetration

This is when the firm achieve growth by harnessing customers through competing on products and service within the same market by selling more volumes to existing customers (Ansoff, 1965). However, this strategy requires investing of both more time and money in implementing any new marketing strategies to harness more customers and that may not be quickly translated into profits (Bike, 2008). Lynch, (2009) concurs arguing that, it's not that easy to retain the existing customer, rather market penetration can only be effective and result oriented only if there is high degree of improvement in products quality and services, not only that but also when the firm implement intense promotional strategies to increase market share. Mascarenas et al, (2006) states that firms need to expand what it is currently doing to more and more potential customers to increase chances of growth through revenue maximization at very low risk. Firms cannot serve the whole market due to the fact that it ends up being jack of all trades but master of none because the needs and wants of customers are diverse hence the need to identify a segment in which the firm can effectively serve through in-depth penetration (Kottler, 1999).

Techniques used in achieving growth via market penetration includes taking competitors clients through new distribution systems like mass distribution, converting non-users by luring them through price reductions and in-depth market intelligence. In microfinance context, convenience of financial services is a source of competitive advantage. MFIs clients are low income earners, hence when they need money, usually it's a matter of urgency. Market penetration growth strategy is the low risky strategy as the organization have a better understanding of consumer behavior and patterns because of the experience it has with the existing markets. Common strategies used when following this growth strategy includes promotions, pricing strategies, increasing degree of advertising and more sophisticated distribution channels. However, the drawback of this growth path is the time factor, it requires more investments of time.

In view of the above literature about market penetration as a growth strategy, scholars failed to highlight the concept of market saturation. There is time when the market is saturated enough that it couldn't be in a position of buying more to increase sales of the firm. In addition, the influence of economic environment is also a matter of concern, changes in economic conditions in a negative direction will clip the buying power of the existing market hence stiff the growth of the firm pursuing market penetration as a growth strategy.

2.4.4 Diversification

Diversification refers to moving business fields into new markets with new products, or both, while not deviating from strong core businesses (Ansoff, 1965). It is inherently more risk than the other three growth strategies since the organization has no or very little experience of the market. Due to the fact that diversification strategy is very risk hence very few firms adopt it as a growth strategy. Firms pursue diversification growth strategy after all other strategies are exhausted because diversification require new skills, facilities and technologies. This strategy can in form of concentric or conglomerate (Jetter, 2015). Concentric diversification is when the firm ventures in a business that strategically related to the line of business while conglomerate diversification is when business ventures in an unrelated business that does not strategically fit to the current line of business. This strategy grows the business when sales volume increase as the firm exploits new markets, however the major limitation is the high risk associated with it.

2.5 External growth strategies

This is occasionally referred as to inorganic growth meaning growth of business by the way of mergers, takeovers and acquisitions. Bruner (2004) states that firms adopts this growth by forming strategic alliance with one or more companies sometimes to have access to technological aspects or markets. In addition to that firms may go for strategic partnerships to do away with competition and operational challenges (Jeje 2015). This is in agreement with Samaras (2007) opining that inorganic growth is the fast collaborative approach of growing compared to organic growth because by partnering with third parties, firms have access to technical expertise, economies of scale and being proactive in producing products and services. Houston et al (2006) concurred stating that opting for external growth is the fast way of growing business broadens clientele base that quickly and relatively grow market share without investing a great deal of time and resources.

However, the weakness of the above scholars is that, they did not note that it's not always the case that if a firm pursue external growth strategy then the firm automatically grow but the strategy is also associated by challenges that may delay the firm to grow. For example, the issue of culture clashes, integration of management and profit sharing can create conflicts that may delay firm's growth. Inorganic growth such as Mergers and Acquisition combines different cultures, practices and strategic orientations and this creates variations between firms. This friction might end up in being a source of factional organizational politics that may derail firms' growth.

2.5.1 Benefits of external growth (inorganic)

Firms can gain access to resources that is in short supply such as the right technology necessary to produce or provide quality services at a minimum cost. For example, in microfinance business, MFIs can form strategic alliances with banks that already have advanced technology so that they process and disburse loans in the fastest way to their clients irrespective of geographical position of client. Strategic alliances create opportunities for organizations to come up with new innovative ideas of developing new and competitive products (Smith, 2006). Inorganic growth also helps firms to broaden their clientele base by combining customers of two companies and this improves sales volumes. This is because the sum of two is greater than one therefore synergizing brings advantages to the companies that merge. External growth strategies such as mergers and acquisitions allows the firms to exploit benefits brought by economies of scale. This is because costs are spread over hence a reduction in cost per unit. In connection with microfinance business, mergers and or acquisitions gives MFIs room for developing new products that benefit the clients, not only that but also enables then to venture in foreign markets. Apart from that, firms do not have to invest a great deal of time to expand and markets their products (Dalton, 2006).

2.5.2 Limitations of external growth (inorganic)

Mergers and Acquisitions or any form of strategic alliance results in corporate culture clashes (Phillips, 1994). Every company wants to maintain its identity and culture, so merging may create some fissures that may eventually results in creation of factions' politics within the firms. Integration of organizations policy is also a source of conflict that may derail the growth of firms that go for inorganic growth as each firms wants to put its policy, for example dividend policy. Independence and flexibility will be a thing of the past once the firm decided to approach this fast way of growing the firm and sometimes decisions might take too long to be made whilst the dynamic environment doesn't wait for the firm because it's the firm that respond to the environment. This might defeat the whole purpose of the need to grow fast.

2.5.3 Mergers

Matt, (2000) defines mergers as the coming together of two companies to form one new company. Mergers can be in form of horizontal where two organizations in the same line of business merge so as to do away with unhealthy competition and to increase market share. For example, if two MFIs merge to form one company and continue to provide financial services to the poor, these companies are in the same business and by merging, the competition for clients is reduced. On the other side, mergers can be in form of vertical where the firm merged along the value chain such as suppliers. In addition, mergers can also be in form of conglomerate when two firms in completely different business come together to become one firm. Matt (2000) claims that mostly, companies with poor prospects of growth may try to venture in different types of business hence conglomerate mergers. This allows organization to exploit the benefits of one another in a more meaningful way that leaves both these companies and the society they serve in a win-win situation. It also enables the firm to increase the revenues and reduce operating costs due to benefits exploited from economies of scale within a short period of time.

2.5.4 Acquisition

This is when one or a group of companies acquire another company and have a controlling stake in that company. It can take form of horizontal approach where the firm do so to do away with competition or the company being acquired might be experiencing operational challenges such as failing to service a debt or liquidity challenges. Acquisition can be in form of vertical where the firms takes over the supply chain either backward or forward (Lee and Pennings, 1996).

2.6 Microfinance

Roodman and Qureshi (2006) defines micro finance as the provision of a wide range of financial services to the low income earners which includes credits, savings, insurance and money transfers. Similarly, Alemayehu (2010) referred microfinance as a provision of financial services to low income earners and the entrepreneurs', who previously lack access to banking and related services. On the same note (Robinson, 2011) concurred, suggesting that microfinance is the provision of financial services designed to meet the needs of the poor and low income individuals, particularly in developing countries, with a view to fighting poverty and financial exclusion. However, to date, most microfinance has generally favored microcredit and ignored other services. The weakness of the above definitions on microfinance is that, it fails to incorporate the issue of affordability of these services. Yes, they might offer services to low income earners who previously lack access but it doesn't change anything if these services are offered at higher price. This therefore means that the issue of affordability of financial services should be emphasized if the objective of inclusive growth is to be really achieved.

2.7 Competition

Maurice, (2013) states that life would be very stressful if people compete for everything leaving no room for cooperation. Maurice (2013) maintains that competition cannot always be preferred all the time over cooperation, sometimes coming together of rivals to form strategic partnership is more appealing and socially rewarding. Competing for everything leave the society worse off in a painful situation and against this backdrop, competition is viewed as unhealthy. A rise in competition could change the industry in a number of ways, which can be better and also unfavorable (Cull et al, 2009). Worldwide, the industry of microfinance is realizing an undeniable growth as the players in the microfinance sector keep on growing, with this kind of growth, competition becomes a matter of interest as the sustainability of these institutions is highly debated. McIntosh et al (2004), had this similar view arguing that the is no doubt that benefits of microfinance may be carried away with the increasing competition in the sector continues.

Several authors had weighed in claiming that, increased competition in the financial/banking sector may have adverse effects, as it may lead to compromised borrower selection standards, to weakening of customer relationships and to multiple borrowings and high defaults (Stiglitz, 2000; Boot, 2002; McIntosh and Wydick, 2015). Competition forces firms to rethink about their strategies so as to have competitive advantage. Not only that but it forces organizations to find ways of managing costs to create a room for cost competitiveness that eventually benefit the society. Walczak, (2013) pointed out that increased competition may lead to multiple-loan taking by clients, resulting in heavy debt burdens and low repayment rates while Armendáriz and Labie, (2011) provided that increased competition led to decrease in profit which threatens long term existence of some institutions. Different arguments from different scholars about the implications of competition is what made competition in MFIs a subject of interest in this study.

2.8 Performance of microfinance sector.

Kothari (2003) views performance as a term applied to a part or all activities of an organization with regards to a certain period of time usually on the basis of past, or projected cost efficiency and management responsibility. Microfinances is usually measured by outreach performance which is defined as the extent to which microfinance services are provided to the people who are financially excluded by financial institutions (Brown, 2005). Rahman and Luo, (2010) agrees arguing that outreach performance is the provision of financial access to a large number of borrowers who had previously been excluded from such a service. Performance of microfinances institutions can be measured in terms of breadth, that is the number of clients both borrowers and savers (Barry and Tacneng, 2009). This is supported by Rosenberg, (2009) claiming that performance of the sector is measured on the basis of the number of active clients comprises of borrowers, depositors, and those that are accessing any other financial services at a given period of time.

Predominantly, microfinances institutions have been viewed as instruments of social change through alleviation of poverty and ensuring inclusive growth therefore its performance measurement have been excluding financial parameters (Pankaj and Sinha (2015). In light with the above explanation from different scholars, the main weakness of measuring performance of MFIs without including financial aspects, is that it creates situations where MFIs can be technically insolvent whilst its social performance is praiseworthy. This is the backbone of this study as it examines the sustainability of these MFIs in relation to the growth strategies with more emphasis of profitability measured in terms of ROA and ROE. Pankaj and Sinha (2015) supports the concept stating that social performance appeared to have outdone the state of financial health of these institutions simply because they have been considered non-profit making organizations. The commercialization of the sector made efficiency a key ingredient of MFIs operations, otherwise failure to do so hinders the achievement of MFIs objectives and threatens the institutions sustainability.

2.9 Six Dimensions of Outreach model

The theory of six dimensions of outreach performance explains that given the most critical resources in any organization, human and financial resources, the institution should provide the financial services at a low cost and high productivity utilizing available resources to its maximum. This study is premised on this model as indicated that authorities that are examining MFIs performance are considering only four dimensions of outreach leaving the most critical financial aspects.

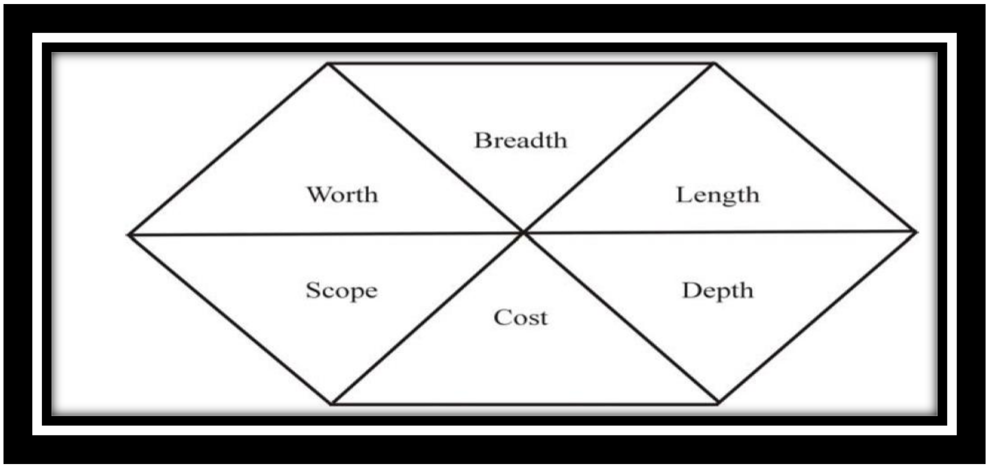


Figure 2.5: Six Dimensions of Outreach model

Source: *Rauf (2009)*

- **Breadth of outreach**: This is the number low income earners served by a microfinance and is measured in terms of the total number of active borrowers. Branch network and the number of staff hired can also be used to measure breath of outreach as increase in branch network and staff hired indicates how the organization is increasing it market hence more poor people will be served.

- **Depth of outreach**: It shows the extent to which those that are excluded from the financial services are reached by an MFI. In third world countries, there is high levels of poverty in rural areas that have limited access to formal financial services for several reasons.
- **Scope of outreach**: This is the diversity of financial services provided by an MFI to the disadvantaged group (poor people) for example it explains whether it is a one product organization or is it capable to offer various products for the benefit of its customers (Rauf, 2009). Scope is measured through number of services offered by the institution and the type of market as to what constitutes the market, what is the ratio of women to total savers.
- **Worth or value of financial service**: Terms and conditions under which financial services are offered have an effect to the both the borrowers and the sustainability of an MFI. Microfinance worth increases if the borrower is comfortable with the terms and conditions of a loan in as far as, size, duration, frequency of loan installment payments, collateral

requirements, interest rate, fees and any other, the worth of outreach increases. Worth of outreach is measured in relation to average loan size currently prevailing in the market.

- **Cost of outreach or operational self-sufficiency**: This refers to the cost incurred by MFI in providing financial services and it is considered operational self-sufficient if it generates adequate revenue to meet its operating expense, otherwise if not so it has two options, that is to reduce its operational cost or to increase its return on assets. Operational self-sufficiency is the ratio of financial revenue to financial expense.
- **Length of outreach**: This shows how a MFI is financially self-sufficiency which guarantees the sustainability of MFI over a longer period of time. An MFI that generates sufficient revenue to cover up expenses and left with enough money to finance its operations and reduces reliance on external help is regarded as financially sustainable.

Rauf and Tahir (2009) opines that out of the six aspects of outreach, four indicators of outreach give a good guess of the extent and pattern of growth in terms of breadth, depth, scope and worth of outreach of an institution. The remaining two dimensions of outreach which relates to cost and length of outreach touches financial aspects of efficiency and productivity which are very important in determining the sustainability of MFIs. To date, last two dimensions were ignored on microfinance studies simply because initially the major objective of MFIs was social mission that is to cater for the poor people through financial inclusion. Now that MFIs have drifted from social mission to be profit oriented, cost and revenue generation becomes key in assessing the performance of microfinance sector. It is against this backdrop that made the subject of growth strategies and their effect on profitability a matter of interest in this particular research.

2.10 Financial performance of microfinance sector

Financial performance is a subjective measure of how well a firm is utilizing assets from its core business to generate revenues (Kivan Shaw 2006). Weessel (1965) argues that in wider sense, financial performance refers to the degree to which financial objectives are being accomplished in terms of the results of the firm's business model in monetary terms. The primary financial objective of every profit oriented organization is to maximize revenues hence financial performance is the overall measure of the firm's financial health over a given period of time and is also used in comparison with similar firms across the same industry. Mutia, (2013) pointed out that there are a number of ways to assess financial performance of a firm, but all measures should be taken in aggregation. Revenues from operations, operating income or cash flow from operations, as well as total unit sales may be used measure financial performance of the firm.

Mission drift by microfinance institutions from social mission of financial inclusion to commercialization requires high level of efficiency and effectiveness for sustainability purposes. This is because providing financial services is costly due to high costs of information and transaction costs. Sustainability of these enterprises was not considered during the beginning of the movement yet their continuity is based on how self-sustainable an organization is. Rosenberg (2009) provided a guide on measuring microfinance institutions sustainability highlighting that the standard measures of profitability are Return on assets (ROA) and Return on Equity (ROE) while Financial Self-Sufficiency (FSS) measures the extent revenues of microfinances mainly interest income cover incurred expenses. This means that if FSS is below 100% then the institution is yet to achieve financial breakeven and this brings in the issue of operation sustainability. Financial performance is key in microfinance business therefore this research seeks to shade new light on the effectiveness of growth strategies on profit enhancement.

2.11. Return on Assets. (ROA)

Measures of financial performance is anchored on the thinking that it indicates firm's performance without being affected by differences in firms' sizes. ROA measures both profitability and asset turnover ratio. It highlights whether a firm is fully utilizing its assets to generate sufficient income that maximize profits (Rosenberg, 2009). Since the study is focusing on MFIs that started operations in different years, ROA is one of the ideal profitability measure.

2.12. Return on Equity (ROE).

Shareholders that have invested their money are interested on return on investments. ROE measures how effective the company is generating returns for equity invested. However, the weakness of ROE is that it doesn't indicate the extent to which the firm is using money from external financing therefore it may show an impressive ROE while not being effective in growing the company with shareholders' equity (McGuire, 1988). The researcher will also use ROE as a profitability measure and its weakness will be covered by the use of ROA.

2.13 Key performance of financially sound MFI

The increased competition in the sector demand a growth strategy supported by high quality portfolio, operational efficiency, and acceptable level of non-performing loans. If these attributes of a well performing institution are maintained, then the liquidity position will be sufficient to compete and sustain the firm for a very long time.

2.13.1 **Portfolio quality-** This is a combination of financial services offered by microfinance to its clients. An institution with diversified portfolio in terms of products offered have high chances of better performance. Barry and Tacneng (2009) argues that innovative microfinance institutions that are good at coming up with new products are more efficient and productive whilst those satisfied with a single product are inefficient and less productive.

2.13.2 **Operational Efficiency-**Increased competition in the microfinance industry calls for high levels of efficiency through reduction of unnecessary costs but without compromising the quality of services. Armendáriz and Labie, (2011) suggests that there is inverse relationship between competition and the costs efficiency therefore in order to improve financial performance, MFIs should reduce costs and deliver more quality services. The findings by (Yenesew, 2014) (Tehulu, 2013) and (Befekadu, 2007) showed that the ratio of operational expense is always negatively related to profitability in their empirical studies in Ethiopia. Growth strategy which ensures maximum utilization of the available resources is considered the best in as far as efficiency is concerned. High operational efficiency is positively related to financial performance in microfinance sector.

2.13.3 **Performing loans-** performing loans is positively related to financial performance of the MFIs. The increase of non-performing loans harms revenues and liquidity position of Microfinance institutions. Ledgerwood (1999) states that the profitability of an MFI is hurt if interest income is not received on delinquent loans, worse if even the principal amount is not repaid. Market-oriented growth strategy by many MFIs increases competition which eventually increase defaults risks due to over-indebtedness. Kar and Swain, (2014), Gwasi and Ngambi, (2013) have noted that rising default rates and poor lending portfolios of MFIs is a matter of concern and some experts in the field of microfinances also voiced their frustration regarding that upward defaults trend. Adopting a growth strategy which does not fuel fierce competition but based on developing the products and services not only enhance optimal usage of resources but will also lead to efficiency. Once efficiency is achieved, the interest charges on loan will be reduced and so non-performing loans.

To date, the concept of assessing the financial performance of the sector to measure financial healthy has not yet considered to the fullest. This is signaled by RBZ, (2015)'s assessment of microfinance sector in Zimbabwe, it left out the financial aspects of costs and profitability as shown on figure 2. below. This indicate the need for a study on financial performance of MFIs to ensure that these institutions operate in a way that enable upliftment of financial self-sufficiency. Sustainability is one important factor for MFIs to serve the very purpose that they are established for, therefore a study on how profitable these institutions was long overdue.

	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
Number of licensed institutions	135	147	143	147	155
Total loans (million)	\$151.83	\$156.99	\$163.53	\$162.20	\$173.31
Total Assets (million)	\$210.11	\$202.71	\$202.58	\$208.76	\$207.74
Portfolio at Risk (PaR>30days)*	12.08%	11.29%	12.05%	13.31%	9.05%
Number of Clients	220,357	205,282	189,028	224,300	198,371
Number of Loans	257,542	257,542	195,641	281,547	224,055
Number of Branches	482	473	499	495	475

Figure 2.6: Key performance indicators

Source*: Microfinance sector, RBZ (2015)*

2.13 Market growth strategy and profitability

The relationship between market share and financial performance (profitability) is significant and needs more researches in different sectors of the economy. There is a general belief that there is a strong positive relationship between market share and profitability as suggested by (Simon, 2010). This view is also supported by Buzzel (2004) stating that most of the studies on the subject find positive relationship between market share and financial performance. These arguments lack the backing of adequate explanation about how the two variables positively relate. The findings of Buzzel (2004) and Simon (2010) would have been more convincing if they had highlighted the mechanisms of such a relationship. Rumelt and Wensley (1980) were of the view that the observed relationship between market share and profitability is an empirical regularity that require more in-depth theoretical explanation. Jacobson and Aaker, (2005) sang from the same hymn pointing out that the evidence regarding market share effect is yet to be concluded.

On the contrary, (Alexander, 2010) claims that there is a negative relationship between financial performance and market share, and in some subsequent research profit ratios declines with size for profitable organizations but profits maximize with size for small and medium organizations (Stekler, 2003**).** (Schwalbach, (1991) suggests that high market share may hurt the profitability of the firm due to availability of various diseconomies of scale such as diseconomies of confusion, whilst other strategist such as Porter, (1980) believe in U-shaped market share and profitability relationship. What Alexander, (2010) fails to do is highlight how the two variables arrive at an inverse relationship, however Schwalbach (1991) proffered how market share may end up hurting profitability. In light of the views of the above scholars, both scholars fail to fully acknowledge the significance of resources which plays a critical role on the success of market share grab. Availability of adequate resources that are fully utilized in line with pace of market share grab seem to confirm positive correlation between the two variables. Not only that but the conditions characterized the market matters the most. Markets that are characterized by low level of concentration have very little chances of producing a positive relationship between market share and financial performance.

Empirical studies conducted by Armstrong and Green, on twenty companies using return on assets and after tax return on sales shows that market oriented objectives and profits were negative ranging from -2.8 to -0.73 according to Amstrong and Green. In addition, studies conducted by Jeje, (2015) on Savings and Credit Cooperatives Services (SACCOS) in Tanzania shows that if product development strategy implemented well, it can lead to better financial performance. This shows that innovation is at the center of organization success especially in business environments characterized by volatility, uncertainty, complexity and ambiguity. Similarly, a research on Toyota, the world car manufacturer giant by Maynard and Tabuchi (2010) revealed that an inverse relationship between market share and financial performance. It found theta there was a dramatic decline of revenues between 2002 and 2010 when the firm had set an ambitious market of grabbing 15% market share of global auto motor industry, a move that comprised its product quality and costs its reputation

Amstrong (2012) studied the performance of companies which focused on profit rather than market share namely DuPont, General Electric, Union Carbide and Alcoa and found that their return on investment were much stronger than those like National Steel, the Great Atlantic & Pacific Tea Company, Swift, American Can, Gulf and Goodyear which focused much on market share. In connection with the empirical findings in relation to market share and profitability, companies that focused on grabbing market share had performed dismally in as far as return on assets was concerned. This does not mean market share is not significant, it is needed for the survival of the organization but putting all the efforts on it ignoring other important strategies such as customer retention and product quality has detrimental effects that can heavily cost organizational performance. Interestingly, another empirical finding on studies carried out by Simon (2010) found no significant relationship between market share and profitability. On the other side Yannopoulos (2015) conducted a study on approximately 300 companies in Canada and also found that there is no positive relationship between market development and profitability. It instead found a positive relationship between quality management and profitability.

The researcher has noted that the findings about the existence of positive correlation between market share and profitability is anchored on the basis that higher market share enable organizations to enjoy benefits of economies of scale by reducing cost per unit that automatically increase profit margins. This enables organizations to extract favorable concessions from suppliers and attract more customers that eventually increases profits as highlighted by Buzell, Gale and Sultan, (2010), however from literature and empirical results, it shows that it's not always the case but it depends with the nature of industry in which the firm is in. Highly competitive markets have high chances of producing negative relations between the two variables whilst monopolistic and oligopolistic are likely to give positive relationship. The contradictory explanations and inconsistent findings shows that more still needs to be done in as far as the relationship of the two variables is concerned. These studies had been conducted in other countries and in different sectors of economy, producing different and contradicting findings. Given substantial growth of MFIs in Zimbabwe, there is a need to examine the relationship between market growth strategy and financial performance specifically in the microfinance sector.

2.14 Product growth strategy and profitability

The success of firms in the global economy is anchored on its capability to provide quality products for its customers. Developing products is key as it adds value to the product and create a strong brand loyalty that eventually led to increased revenues. Brand (1998) stated that developing a product in Microfinance includes improvement on loan application time, criteria of accessing loan and also improvement on interest rate charged. In support of that Amha, (2008) argues that product development not only add value but reduces transaction costs linked with providing financial services which maximize revenue generation and also increase demand for loans. Similarly, Wright etal (2003) claims that promoting microfinance's new products to new prospective users can attract and increase more new customers of microfinance products. On the same note Barry and Tacneng (2009) argues that microfinance institutions that are so innovative in coming up with new products are more efficient and productive whilst those satisfied with a single product are inefficient and less productive.

The above authors tend to fully agree on a positive correlation between product development and financial performance but they make no attempt to highlight that while it sounds easy, organizations need to develop products that will have sufficient market to generate revenues that are good enough to sustain the investment. It is not always the case that if one develops the product then costs automatically decline and increase profits but a thorough research should have first conducted to see if the idea yields the expected revenues. This is the why the researcher intends to find how effective product growth strategy is on financial performance on MFIs. Product growth strategy if implemented well, it led to the implementation of cost leadership strategy and product differentiation which creates a defendable position and outperforms competitors in the industry and by so doing it increase profitability. Team FME (2013) notes that when implementing product growth strategy, firms must ensure that products being introduced are closely related to the existing products, it reinvents the current products and also it matches the market's purchasing habits to avoid a disaster of introducing a product which does not have sufficient market to sustain the investment. In regard to Team FME (2013), it explained adequately that companies should not just introduce products but the products should be related to the current products to ensure that customers do not find it difficult to purchase it.

Haeussler et. al (2012) related positive firm performance to development of new products, a view provided by Goedhuys and Veugelers (2008) relating product innovations with firm growth and sustainability while Sharma & Lacey (2004) found that financial losses are attributed to product development failures. In addition, Geroski et al (1993) suggested that product innovations have positive effect on their operating profit margin. Most scholars tend to agree that there is a positive correlation between product development growth strategy and profitability. However, claiming that product development positively correlates with firms' performance without explaining how is not good enough. New products increase sales on the basis that the existing customers will be loyal to the organization products plus new users that will be attracted by new products. Very few MFIs are being innovative as many of them are offering small credits only whilst product innovation is considered so profitable. If that is really the case as supported by literature and empirical studies, why them MFIs are not following that. It is also against this background that this study seeks to examine the relationship between product growth strategy and profitability in the microfinance sector. Product growth strategy is associated with high degree of innovation which benefit the different stakeholders.

A study by Goedhuys and Veugelers (2008) acknowledged innovation strategies of companies specifically technology creation and its effect on successful process and product innovations using World Bank's Investment Climate Survey (ICS) data collected in Brazil in 2003. The findings indicated that innovative performance is a critical tool for firm's growth specifically a combination of product and process innovation. This support the fact that a growth strategy anchored on product innovation is key and it yields positive performance in as far as financial performance is concerned although it is costly and time consuming. However, returns on investments of product development may not be realized the very first year but after a certain period of time after recovering costs incurred in the process of coming up with that product. The findings were in agreement with a study on textiles conducted by Liu, Lin and Huang (2014) which found that product development is positively related to operational efficiencies and organization effectiveness.

However, Mbithi et al (2015) conducted a research on the effectiveness of new product development on company performance in the sugar cane industry which included both private and public companies in Kenya. A total of 120 managers participated in the study and the findings showed that new product development didn't have significant impact of all performance indicators. The results reflected a very weak relationship of less than 3% between new product development and organization performance. It is interesting that Mbithi et al (2015) found a different results found by other scholars such as Goedhuys and Veugelers (2008). This is an indication that one cannot jump into a conclusion about the effects of product development on organization performance. This study therefore seeks to examine the effects of product development as a growth strategy on profitability in microfinance sector. Most studies about growth strategies were conducted on Small and Medium Enterprises (SME) and no attention have been given to microfinance sector of which it plays a critical role of enhancing inclusivity through financial inclusion and poverty alleviation.

2.15. Market penetration and profitability

Banda (2015) posits that organizations are unique and they operate in different industries which demand some different sets of strategies to succeed hence by creatively thinking, companies can increase profits at a very low risk through penetration. Frank et al (2014) supported the view stating that market penetration strategies such as pricing strategies, promotions, sophisticated distribution channels and product improvement in terms of packaging if properly implemented will yields positive results in terms of sales volumes and assets growth. What makes marketing penetration an ideal growth strategy that will never go wrong is the fact that, management have a deep understanding of market's behavior and they provide to the market's expectations, apart from that more effort is put in converting non- users to be users of products by introducing new uses of products, this eventually increase sale volumes (Kalafatis, 2000). Oloko and Sije (2013) suggests that pricing strategies' effectiveness on organization performance depends on the type of business and market characteristics. The scholars have adequately explained how market penetration increase organization growth. Good customer relationship is the source of market intelligence that brings about new ideas of improving products. In addition to that, it enables the firm to understand competitors' actions better and devise strategies on how it can capitalize on competitors' weaknesses.

Empirical studies conducted by Frank et al (2014) in United States of America on Small business produced similar results where the was no significant relationship between penetration strategies and performance. However, empirical results produced by Anna *et al.* (2012) found that statistically, the is positive and significant relationship penetration and firm's performance. This means the effectiveness of market penetration as a growth strategy depends on the operating environment and the type of business. Microfinance business is unique in the sense that its target market are low income earners, this means that if all low income earners are fetched up, then the market is saturated. Will penetration strategies work in improving profitability under such conditions, this is what this study seeks to answer?

2.16. Knowledge gap

Studies conducted on microfinance institutions have been neglecting financial aspects although they are key in determining how sustainable these institutions are. Scholars such as Alshatti (2015), Njanike (2009), Kithinji (2010) and others carried out researches on credit risk management with the mind of dealing with default rate, one of the diseases that is making the life of management difficult. This was because, initially, MFIs' business was to uplift people from poverty and include them in the economic realm. However, mission drift from social mission to profit maximization calls for the need to carry out a research on the financial aspects in the microfinance institutions to fill the gap. Growth strategies are key performance drivers which have great influences yet it was neglected too. Researchers were only interested on social performance of the sector and a MFI with greater outreach was considered the best, but what about sustainability of such institution? Given the rapid growth of microfinance sector, there is a need to examine growth strategies in pursuit to avoid situations where the institution is socially performing while gradually becoming technically insolvent. This study will therefore fill the gap by examining the effectiveness of growth strategies on financial performance in the microfinance business.

2.17. Chapter summary

The chapter reviewed the literature used by other relevant authorities on the relationship between growth strategies and performance of organizations. Scholar have been critically assessed and compared on their view angles towards growth strategies and other factors related to the performance of the microfinance sector such as competition. The researcher also gave the insight of his research on the relationship between growth strategies and organizational performance. The criteria of measuring MFIs performance both in terms of social performance and financial performance was also discussed in the chapter. Empirical studies regarding the concepts under study and knowledge gap have also been discussed.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

Rajasekar et al (2013) defined methodology as merely an operational framework within which the facts are placed so that their meaning may be seen more clearly. The chapter lays a detailed insight into the design of the research and research instrument used to collect data that will be analyzed and interpreted in chapter 4. It will also highlight sources of both primary and secondary data and the criteria used to select sample size from the target population. Sampling technique applied in arriving at the final sample is also covered in this chapter.

3.1 Research Design

Rodson (2011) defined a research design as a scheme or plan to be used in a research study which therefore helps the researcher on allocation of resources. This particular study follows the descriptive research and correlational research designs in order to get the true picture about growth strategies adopted by MFIs and how they relate to profitability. It therefore enabled the researcher to come up with a framework on how the study is carried out to ensure that the deficiencies caused by growth strategies in the Microfinance sector are effectively addressed.

3.1.1 Descriptive research design.

The researcher employed descriptive research design to address the first objective of the study which seeks to identify growth strategies adopted by MFIs in Midlands province. Descriptive research is referred as technique used to provide the real situation that is taking place on a particular field (Burns et al, 2013). Descriptive research enables the researcher to describe, records, analyze and interprets different types of growth strategies in use to ensure that adequate explanation is given to address the effect of pursuing wrong growth strategy that hurt profitability in MFIs. The study made use of questionnaires and interviews to collect data which was then analyzed and interpreted to identify growth strategies being pursued. In determining growth strategies, the researcher made use of number of branches and number of products being offered by the institution as indicators but taking into consideration the age of business. Both closed questions and open-ended questions were used to gather data to ensure that accurate data is collected and analyzed so that the true picture of the situation is reflected.

3.1.2 Correlational research design

After the identification of growth strategies used by MFIs, the study went further through the use of correlational research design to reveal the linkage between growth strategies and financial performance. In determining financial performance, ROA and ROE were used as profitability measures. Kothari (2008) defined correlational research as the determination of relationship between two or more variables. The major aim of this study is to assess the effectiveness of growth strategies on profitability hence the need to determine how different growth strategies correlates with ROA and ROE. Data collected from primary source through the use of questionnaires and from secondary sources, that is financial statements was used to test the relationship using regression statistical tool. This enables the researcher to address second, third and fourth objectives which sought to assess the effectiveness of product-market growth strategies on profitability. Conclusion and generalization of the findings about the linkage of these variables was made after rules of logic have been followed therefore the study is deductive in nature.

3.1.3 Justification of Descriptive and Correlational research designs.

This particular study is a quantitative research therefore it requires statistical measure to conclude the results. By so doing, it disqualifies all qualitative research designs and appreciate quantitative research designs. Descriptive research was found appropriate because it enables the researcher to address the first objective which seeks to identify growth strategies used by MFIs. This is because determination of growth is done through describing and analyzing data provided by respondents. The second, third and fourth objectives seeks to examine the effectiveness of growth strategies on profitability and correlational research design provide answers to such hence it was found appropriate. Growth strategies which positively correlate with ROA and ROE are effective on profitability and those which inversely correlate are ineffective. The researcher employed these research designs in this study because they complement each other in the sense that descriptive research design addresses the first objective by just describing growth strategies adopted by MFIs, on the other hand correlational research design reveals the relationship between growth strategies and profitability using regression statistical tool.

3.2 Population and Target Population

The population of this study constitutes all MFIs that are located in Midlands province. According to RBZ (2015), they are 27 MFIs which are currently operational in Midlands province therefore these forms the study population. Target population is referred as the collection of objects or the whole group of individuals that possess information that the researcher is interested in and of which inference is to be made Bajpai (2011). The target population of this particular study are senior managers and branch managers of 12 MFIs located in Midlands province. These MFIs were selected on the basis of their ages where those that started operations before or in 2012 were found appropriate. Out of 12 MFIs selected, a total of 75 research elements formed target population and the reason for targeting senior managers and branch managers is because they are custodians of performance of strategies. Generally, MFIs are small enterprise therefore information from human resources department shows that senior management is comprised of Finance and Administration manager, Business development and operations manager, Credit Control manager and marketing manager. Table 3.1 shows the target population as per each institution.

Table 3.1. Target Population

		Senior management				
MFI	**Branch managers**	**Credit control managers**	**Marketing managers**	**Business managers**	**F and A managers**	**Total**
Yonder rift	5	1	-	1	1	8
Getbucks	3	1	1	1	1	7
Nissi	1	1	1	-	1	4
KCI	5	1	1	1	1	9
Inclusive	2	1	1	1	1	6
UNTU	3	1	1	1	1	7
Kreamon	3	1	1	1	1	7
JHM	2	1	1	1	1	6
Coverlink	3	1	1	-	1	6
Solten	1	1	-	1	1	4
Creditplus	2	1	1	-	1	5
Shons	3	1	-	1	1	6
Target population	**33**	**12**	**9**	**9**	**12**	**75**

Source: Human resources departments (2016)

3.2.1 Justification of the target population.

This study's target population is comprised of senior management and branch managers of the selected MFIs because senior management are responsible for strategy formulation hence they have a deep knowledge of growth strategies adopted by MFIs. On the other hand, branch managers have a better understanding of the things that are happening on the ground and are responsible for strategy implementation at branch level. This guarantees accurateness of the data that the researcher is interested on.

3.3 Sampling methods and sampling techniques

After the establishment of target population, the study followed the two-stage sampling procedure to arrive on study sample size. In the first stage stratified sampling was used to assign sample to strata by making use of proportionate stratification. On the second stage, random sampling was used to select the final sample. Sampling is defined by Kumar (2005) as the procedure of selecting a few but sufficient individuals from a larger group so that the basis for predicting the prevalence of an unknown piece of information, situation or outcome pertaining to a larger group can be taken from them. This study applied stratified random sampling because the constituency of target population is heterogeneous comprising senior management and branch managers of the selected MFIs in Midlands province, Zimbabwe. The choice of heterogeneous target population that occupy different positions of senior management and branch managers was to incorporate views from different angles. Heterogeneity of the target population was on the basis of position occupied. Senior managers formulate strategies so they have their own views regarding strategies in place while branch managers are responsible for implementing these strategies at branch level and tend to better understand impact of these strategies on the ground.

3.3.1 Stratified random sampling

Stratified sampling is referred as a process whereby target population is divided into homogeneous groups called stratas (Charantimath, 2014). Research elements of this study are heterogeneous, made up of two groups that is senior management and branch managers of 12 selected MFIs which possess different characteristics. In the first sampling stage, the researcher assigned target population to stratas on the basis of position occupied because the roles and functions of senior management and branch managers of MFIs are totally different. This is because senior management are formulators and overseers of growth strategies while branch managers are the implementers of these strategies at branch level hence they view impacts of these strategies from different perspectives, therefore stratified sampling was applied. The proportion of senior managers from the target population was 56% and the remaining 44% was for branch managers. This means that the study follows the proportionate stratification method. The second sampling stage was random sampling where research subjects from MFIs managers were selected on random basis but still maintaining the proportionate of each strata. Random sampling was applied using Microsoft excel where the researcher inputted the data of each strata namely senior managers and branch managers and commanded the computer program to pick the research subjects at random basis.

3.3.2 Justification of stratified random sampling

The constituency of this study's target population is made up of MFIs employees that held senior management positions from different departments and branch managers. These research elements occupy different positions with different roles therefore it is important to ensure that all stratas are well represented by striking a balance on the final sample. In addition, the random selection of senior managers and branch managers from stratas ensures high degree of objectivity which is very significant if the findings of the study are to reflect the true picture on the ground.

3.4 Sample size

Sample is referred as subset of the entire target population selected to participate in a research study (Bajpai, 2010). The sample size of the research should be large enough to produce accurate findings otherwise too small sample may result in garbage in garbage out.

Table 3.2: Target population and sample size.

Strata	**Target population**	**Sample**	**Percentage**
Senior managers	42	33	79%
Branch managers	33	26	79%
Total population	**75**	**59**	**79%**

Out of a target population of 75 MFIs managers, 59 were selected and this gave a sample size of 79% as shown in table 3.2. To arrive on a sample size of 79%, the researcher obtained it from the table that indicates a list of appropriate random sample size large enough to produce accurate findings developed by Krejcie and Morgan (1970) from a mathematical formula. The table calculated sample size at 90% level of confidence; this therefore means that the researcher was 90 % confident that 79% sample size produced accurate results which can be generalized to the entire population. Out of 59 research subjects, 56% of it represents those that held senior managerial positions whilst the remaining 44% represents branch managers of 12 selected MFIs that are located in Midlands province. Krejcie and Morgan (1970) used the following mathematical formula to calculate a list of appropriate sample size to produce credible findings:

$$S = \frac{X^2 NP(1-P)}{d^2(N-1) + X^2P(1-P)}$$

where S = Required Sample
X=Z value
N=Population Size
P=Population proportion (in decimals)
d=degree of accuracy

3.4.1 Justification of the sample size.

The study is quantitative in nature, hence sample size of 79% of the target population is good enough to produce accurate and reliable findings. This is in line with Scheaffer (2012)'s suggestion which states that a sample size of more than 30 % is good enough for the researcher to generalize the results to the entire population. Furthermore, a sample of 79% to target population is large enough that even if some research subjects failed to return questionnaires for whatever reasons, the sample will still be representative enough to produce accurate results that can be generalized to the entire study population.

3.5 Sources of data

Data sources are referred to the origination of data that will be used in a particular study (Kachere, 2011). The researcher made use of both primary and secondary data in this study. Data collection is an organized way of gathering data for a particular purpose at a certain period of time.

3.5.1 Primary data

The researcher used primary data in this study for the reason that it gives reliable and recent information regarding the subject matter. This raw data concerning growth strategies adopted by MFIs and their effects on financial performance will be collected from senior managers and branch managers of MFIs in Midlands province. Kachere (2011) referred primary data as the data obtained by the researcher from the very source with no third parties in between. This particular study will make use of interviews and questionnaires to collect primary data, that is so relevant and significant if findings of the research is to produce credible findings. Primary data regarding growth strategies enhances a good data interpretation because the source of data is original and reliable.

3.5.2 Secondary data

Secondary data is described by Kothari (2004) as the data that have been collected, processed and analyzed by someone for other purposes different from the problem at hand. Because of its nature, secondary data is regarded as second hand information as it does not originate from the original source. This research used secondary data from selected MFIs' income statements, statement of financial position and statement of changes in equity that were reported to RBZ. The researcher is interested in the after tax net income, total assets and total equity that are so useful in measuring financial performance of MFIs. This is because the study will use Return on Assets (ROA) and Return on Equity (ROE) to measure profitability of the selected MFIs in relation to their growth strategies.

3.6 Research Instruments

These are the methods used to collect relevant data from the field in which when presented and analyzed will provide answers to the study. The researcher used questionnaires and interviews to collect data and this was done to ensure that validity and reliability is achieved.

3.6.1 Questionnaire

Questionnaire refers to a document where questions are written and key informants complete the document. According to Webster, (2008) questionnaire is a printed document used to ask for information about a particular subject of interest. The researcher has made use of questionnaire to collect information about growth strategies adopted by institutions in the microfinance sector. The questionnaire used on this study was designed by the researcher and it was crafted in a way that it included both open-ended and closed questions so as to allow respondents to air out their views concerning the subject under study.

3.6.2 Structure and design of the questionnaire

The type of questionnaire that was used to collect data in this study followed the Likert scale format for closed questions where respondents were asked the extent to which they agree with the statements that were related to the growth strategies adopted by their institutions. The scale used in the questionnaire is shown below.

Likert scale.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	2	3	4	5

The researcher constructed the questionnaire in a simple and straight language that could be understood by all respondents to ensure that respondents provide relevant, valid and reliable data. Bashir (2008) states that designs of questionnaire has either a positive or negative effects on response rate. Section A of the questionnaire requires research subjects to provide their background information with regards to their age, sex, academic qualifications and for how long were they in microfinance industry. It also included questions about the age and size of the institution This allows the researcher to better understand the kind of respondents that provided the data in use. The second part which is section B requires respondents to provide growth strategies that are being pursued by their organization. This study makes use of number of branches and products offered as growth measures to identify growth strategies used but also taking into consideration age of the entity. This enables the researcher to address the first objective of identifying growth strategies used by MFIs.

The second, third and fourth study objectives which requires respondents' views about product-market growth strategies' effectiveness on profitability will be addressed in section C. This allows the researcher to get a snap shot of how product development, market development growth and market penetration strategies is affecting financial performance of MFIs that are located in Midlands province.

3.6.3 Personal administered questionnaire.

The researcher employed the personal administered approach in collecting data regarding MFIs growth strategies for research subjects in Gweru and Kwekwe. This is because the researcher is studying at Midlands State University and this study is being carried out in Midlands province which made it easier for the researcher to visit MFIs offices located in Gweru and Kwekwe at a very minimum cost. Questionnaires were dropped and picked on different days but within a week. Administering questionnaires personally gave the researcher an opportunity to have personal contact with research subjects, a move which usually results in high response rate and also encourages respondents to respond in good faith. This is because personal administered approach shows commitment and allows the researcher to assure research subjects that the information provided is strictly used for academic purposes.

3.6.3.1 Justification of personal administered questionnaire.

Research subjects in Gweru and Kwekwe are easily accessed by the researcher at a very minimum cost. By so doing, the researcher would drop questionnaires and pick them at a later day and this resulted in high response rate. At the same time, distributing questionnaire personally enables the researcher to have personal contact with respondents and a chance to verbally assure respondents that the information they provide is treated with highest level of confidentiality.

3.6.4 Electronically distributed questionnaire.

Some MFIs are located in Midlands but their head offices are situated in Harare and Bulawayo. This means that senior management which forms part of the research sample are also found in these areas yet they have valuable information about growth strategies. Because of such scenario, the researcher had to resort to electronically distributed questionnaire through the use of emails. The researcher got emails address and phone number from their branch offices and emailed the questionnaire to them. After sending the questionnaire via email, the researcher had to make some phone calls and WhatsApp to make a follow up. This is because usually electronically distributed questionnaire has low response hence the need to intelligently push the respondents to complete and return it. The researcher also resorted to the same approach to branch managers that are located in Gokwe and Zvishavane which is part of Midlands. The use of electronically distributed questionnaire was appropriate because the research subjects were widely spaced which made it difficult for the researcher to visit the offices in person because of limited time and costs associated with it. Under such scenario, electronically distributed is appropriate and still yields credible results.

3.6.4.1 Justification of electronic distributed questionnaires

Some of the research subjects were in Harare, Bulawayo, Gokwe and Zvishavane which made it difficult for the researcher to visit all these areas. Because of such a scenario where research subject with relevant information are scattered, electronically distributed questionnaire is the most appropriate considering that we are living in an information age. In addition, electronically distributed questionnaire is fast and less costly if the research subjects are geographically dispersed.

3.7.0 Interviews

This particular study also made use of interviews as a data collection instrument to counter weakness of questionnaire and to ensure that data collected about growth strategies of MFIs and financial performance is reliable and valid. Kumar (2005), defined an interview as an occasion where one or two people ask a person questions that seek to find out about his or her opinion and ideas.

3.7.1 Personal interviews.

The researcher arranged interviews with research subjects by way of appointments so as to get a clear understanding of MFIs' growth strategies and how do they think it is affecting performance. On making appointments, the researcher did that in person for MFIs that are located in Gweru and phone calls for research subjects that are located in Kwekwe. The researcher opted for personal interviews to have personal contact with research subjects because research subjects are within his reach and the fact that personal interviews are fast and shows commitment on the part of the researcher and this motivate research subjects to respond in good faith. In addition, sample size of this study is made up of people that held managerial positions who don't usually release sensitive information about their institutions hence personal interviews provides a platform for the researcher to fully assure them that the information will be strictly protected.

3.7.1.1 Structured interview

The interview guide that was used in this particular study was prepared in advance before interviews were conducted. This is because the study carried out was quantitative in nature therefore interview guide with structured questions guide the respondents to provide data that can be rated using the same scale. Structured interview is when the same questions are asked in all respondents in the same order so that the same rating scale is applied on data analysis (Kothari, 2004). Participants were asked the same questions relating to the growth strategies being used with their organizations and their views on how effective are they on enhancement of profits. The researcher recorded interviewees using a smart phone and also taking notes during the interviews so as have relevant information for data analysis. The interview guide included both closed and open ended questions to give room for participants to freely air out their views.

3.7.1.2 Justification of personal and structured interviews

The study employed personal interviews because part of research subjects are in Gweru and Kwekwe which is within the reach of the researcher. Additionally, personal interviews have personal touch between both parties which shows researcher's commitment and also gives the researcher an opportunity to clarify certain things in person if the need arise. A combination of personal and structured interviews helps in acquiring valid and reliable information on growth strategies and their effectiveness in the sense that there is personal contact between the researcher and interviewee and the process is guided by set of questions prepared in advance. In addition, the study is quantitative in nature which require a statistical measure to make conclusions hence structured interviews is the most appropriate for the purposes of data analysis. Structured interviews direct participants to provide relevant and reliable information necessary for the purpose of this study and also avoid both the interviewer and interviewee from deviating from the core business hence it is more of objective.

3.8 Validity and Reliability

This study focused on the microfinance sector therefore validity and reliability is of paramount importance. Valid and reliable data produces credible results that does not misinform the responsible authorities when making decisions. The researcher took all necessary steps to avoid situations where irrelevant information is provided which always results in garbage in garbage out.

3.8.1 Validity

In order to ensure that the information collected was relevant, meaning the data collection tool collected the information that it was supposed to collect, the researcher conducted pilot testing to management of some MFIs that possess the same characteristics possessed by the research subjects of this study. The researcher made necessary adjustments on both questionnaire and interview guide so that valid and reliable is collected. In addition, to that the researcher used simple and straight language to ensure that all respondents understand what was being asked. After the researcher was satisfied that data collections tool was now proper, the questionnaires for research subjects in Gweru and Kwekwe were administered in person while for those that were in others areas were electronically distributed and necessary follow up was made to receive back the questionnaire in time. In order to validate the results of the data collected, the study employed interviews. Data collected using these two instruments were similar meaning that the data collected was valid. In addition, to achieve external validity, the researcher collected data from research that constitutes 72% of the target population to make the findings of the study credible enough to be generalized to the entire population as supported by Scheaffer (2012).

3.8.2 Reliability

The researcher made use of triangulation by conducting interviews to counter effect the weaknesses of questionnaire. Study interviews were held using interview guide in Gweru and Kwekwe, the two major cities in Midlands province. The researcher made some appointments for interviews in person for research subjects that are in Gweru while appointments for those located in Kwekwe was made through phone calls. Personal interviews were found necessary because it allowed the researcher to explain in person on areas that needed further explanation. This assured the researcher that the measurement tool was without bias and was being consistence in its measurement across time as long as conditions were the same. Response from both questionnaires and interviews were similar, an indication that data collected was reliable and valid. Interviews were held within one week but on different days. Triangulation helped the researcher to get reliable and valid information necessary to produce credible results that can be generalized to the study population.

3.9.0 Data analysis and Presentation.

Analysis of data will follow a descriptive analysis and bivariate regression analysis. On descriptive analysis, frequencies and percentages will be used to describe growth strategies enabling the researcher to identify growth strategies adopted by MFIs. A chi-square tests will be performed to test the relationship between age of MFIs and growth strategies adopted. Bivariate simple linear regression will be used to test the relationship between growth strategies and profitability. Each growth strategy will be examined using ROA and ROE. A positive relationship means the growth strategy is effective while negative relationship indicate that the growth strategy is ineffective. This will help the researcher to address second, third and fourth objectives of the study.

3.9.1 Statistical package used.

The researcher will use Stata 11, a statistical package to regress data collected from the field. Research data will be computed using Microsoft Excel and later inputted into the Stata package for regression. The relationship between dependent variables (ROA and ROE) and independent variables (Growth strategies) will be tested and pave way for data interpretation and conclusions. Conclusions from the findings will be generalized to the entire population from which the sample has been drawn. The relationship between growth strategies and profitability will be examined using the following regression models:

$$Roa = B_0 + B_{1\,gs} + e$$

And

$$Roe = B_0 + B_{1gs} + e$$

Where roa= return on assets

roe= return on equity

gs= growth strategy

e= error term

B= coefficient to be estimated.

3.10 Ethical consideration

The researcher respected the rights of informants who happen to have the information that was necessary for the study. As a way of establishing trust with the informants, the researcher seek permission to collects data from the selected MFIs in person and took that opportunity to explain to the informants that the information they provide is treated confidential and will be strictly used for academic purposes only. The researcher produced a letter from the Business department to assure research subjects that the researcher was indeed a student from Midlands State University. In that regard, information collected was indeed strictly used for academic purposes only. The letter of consent also clearly stated that participation in this study is absolutely voluntary and that the informants would withdraw from the study whenever they wish to do so.

3.11 Chapter Summary

The chapter explained in detail the methodology that the researcher employed in examining the effectiveness of growth strategies on financial performance in selected 12 MFIs. It also highlighted the target population, sample size, sampling techniques, research instruments, and research design and data collection procedures that will be used in this study. Statistical tool and regression model to be used to test the relationship between growth strategies and profitability was also covered in this chapter.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

The major aim of this chapter is to analyze, present and interpret the findings of the study so that conclusions and recommendation can be made in the later chapter. The analysis of the data in regard to the effectiveness of growth strategies on profitability will be measured by means of regression statistical analysis tool using Stata 11 statistical package and the discussion of results follows.

4.1 STUDY FINDINGS

4.2 Response rate

The researcher delivered 59 questionnaires to senior management and branch managers of the selected 12 MFIs. Table 4.1 below shows response rate

Table 4.1-Response rate

Respondents	**Expected response**	**Actual response**	**Response rate**
Senior management	33	29	89%
Branch managers	26	25	96%
Total	**59**	**54**	**92%**

Source: Survey 2016

As shown in table 4.1, out of 59 research subjects, 54 completed and returned the questionnaires while a total of 5 research subjects failed to return the questionnaires. Response rate of senior management was 89%, this was because some of the managers were so busy that they couldn’t have time to complete questionnaires. Out of 26 questionnaires issued to branch managers, 96% were completed and returned. The overall response rate is 92% which is good enough for the researcher to make generalization of the findings to the entire population from which research sample has been drawn. This is supported by Wilson (2010) who suggested that any response rate that is above 75% is sufficient to make accurate conclusions to a particular research area under study.

The researcher further conducted interviews with 10 senior management and 5 branch managers to gain a deeper understanding on how different growth strategies adopted by MFIs in Midlands province was affecting financial performance. The researcher managed to get 100% response as all interviews were conducted and the reasons behind such response rate was because research subjects were within researcher's reach at a very minimum costs. Interviews were conducted on different days in the city of Gweru's and Kwekwe at MFIs offices. The researcher also analyzed education of participants as the level of education for people who held managerial positions has a bearing on decision making. Highly learned people tend to formulate brilliant strategies. Figure 4.2 below shows academic qualifications of respondents.

Table 4.2-Education level of respondents

Academic qualification	**Frequency**	**Percentage**
No formal education	0	0%
Primary level	0	0%
Secondary level	6	11%
College diploma level	20	37%
University degree level	28	52%
Total	**54**	**100%**

Source: Survey 2016

The information collected from returned questionnaires shows that all the respondents have formal education as shown on table 4.2 above. Most respondents are holders of university degree constituting 52%. Holders of college diplomas were 37% of the respondents while 11% were secondary level graduates. This indicates that most management positions in MFIs are occupied by people who have acquired tertiary level education and this means that the information they provided was accurate. This is because, given their level of education, they understand the concept of growth strategies and financial performance better.

4.3 Age of Microfinances under study

Respondents were requested to indicate the duration that their organizations they work for have been in business of microfinance. Table 4.3 below indicate the age of the MFIs under study.

Table 4.3- Age of MFIs

Age of MFI (years)	Frequency	Percentage
Below 5	6	50%
5 to 10	4	33%
Above 10	2	17%
Total	**12**	**100%**

Source: Survey 2016

The results from respondents shows that 42% of selected 12 MFIs have been in the field for less than 5 years, another 42% have between 5 to 10 years in the business while only 8% shows that they are more than 10 years old in the microfinance business. Data concerning the time that the business has been in existence was significant in determining the growth strategy that the firm is pursuing because the study used number of products and number of branches as growth strategy indicators.

4.4.1 Growth strategies adopted by MFIs

The first objective of this study sought to identify growth strategies adopted by MFIs in Midlands province. The researcher had asked interviewees about the growth strategies that their institutions have adopted and the information from the interviewed participants shows that all MFIs that are under study are pursuing organic growth strategies. On the administered questionnaires, respondents were asked to indicate growth strategy being used in their organization. Study findings shows most MFIs had adopted market development as their growth strategy and it is shown in frequency table 4.2. Out of 12 MFIs under study, 50% had adopted market development growth strategy, 33% adopted market penetration growth strategy and 17% for product development. The results show that no MFI has neither adopted diversification nor any form of external growth strategy in their pursuit for growth. Table 4.4 below illustrates growth strategies adopted by MFIs

Table 4.4-Growth strategies adopted.

Growth strategy	Frequency	Percentage
Market development	6	50%
Product development	2	17%
Market penetration	4	33%
Diversification	0	0%
Mergers and Acquisitions	0	0%
Total	**12**	**100%**

Source: Survey 2016

The findings therefore indicate that most MFIs in Midlands province are pursuing internal (organic) growth strategies as highlighted in table 4.4. This could mean that as long as the institution have strong financial resources and is sure that it has sufficient market to operate profitably, it will always prefer organic growth to inorganic growth. This is supported by (Ansof 1965) and Yenesew (2014), theorizing that most business pursue internal growth strategies in protection of their independence and maintenance of organization cultures, a similar view shared by Emefielie, (2008), asserting that firms use organic growth because it encourages corporate entrepreneurship in which case is a source of sustainable competitive advantages. Lockett et al., (2011) weighted in, pointing out that many times, organizations opt for inorganic growth only if they are facing challenges, otherwise organic growth is at the heart of most institutions.

Additionally, the study findings are similar to empirical results found by Yogo (2013) on Small and Medium Enterprise (SMEs) in Kenya, where small business prefer internal growth strategies to external growth strategies. A study carried out in Denmark by Rasmussen (2009) on SMEs produced the very same results. These studies were carried out in different countries and in different sectors of the economy but producing same results confirming the fact that small enterprises that have the desire of growth usually opt to go it alone as long as they have strong financial resources. In context of microfinance business, the implications of pursuing organic growth strategies are lack of innovation in terms of coming up with new products/services and stiff competition that end up hurting both MFIs and the society they serve. This results in high levels of non-performing which have adverse effects on profitability. This is supported by Schicks and Rosenberg (2011) postulating that increased competition force MFIs to maintain their clientele base by compromising screening standards which results in higher risk borrowers and lead to a decline in repayment and higher default rates hurting company's profits.

In light of the above findings regarding growth strategies adopted by MFIs under study, the researcher went further to test if there is a relationship between the age of the MFI and the growth strategies adopted. The study employed chi-squared statistical tool and the following hypothesis was formulated.

H_0 – *There is no relationship between age and growth strategies.*

H_1- - *There is a relationship between age and growth strategies.*

The following contingency tables 4.5 and 4.6 shows the observed and expected frequencies respectively.

Table 4.5-Observed frequency

Age in years	**Market Development**	**Product Development**	**Market Penetration**	**Column total**
Below 5	5	1	0	6
5 TO 10	0	1	3	4
Above 10	0	0	2	2
Row total	**5**	**2**	**5**	**12**

Source: Survey 2016.

$$e = \frac{R.T \times C.T}{n}$$

where **e** is the expected frequency to be calculated;

R.T is the row total; **C.T** is the column total and

n is the sample size or the total

Table 4.6- Expected frequency

Age in years	**Market Development**	**Product Development**	**Market Penetration**	**Column total**
Below 5	2.5	1	2.5	6
5 TO 10	1.67	0.67	1.67	4
Above 10	0.83	0.33	0.83	2
Row total	**5**	**2**	**5**	**12**

Source: Survey 2016

Chi-square computation

Substituting observed and expected frequencies from table 4.4 and 4.5 above in the formula;

$\chi^2_{\text{cal}} = \left(\sum \frac{(o-e)2}{e} \right)$ where χ^2_{cal} is the calculated Chi-square value;

e is the expected frequency; and

o is the observed frequency

$$\chi^2_{\text{cal}} = \frac{6.25}{2.5} + \frac{2.79}{1.67} + \frac{0.69}{0.83} + \frac{0}{1} + \frac{0.11}{0.67} + \frac{0.11}{0.33} + \frac{6.25}{2.5} + \frac{1.77}{1.67} + \frac{1.37}{0.83}$$

χ^2_{cal} = **<u>10.71</u>**

Calculating the degree of freedom (d_f)

$\mathbf{d_f} = (r - 1)(c - 1)$, where r is the number of rows and c is the number of columns.

$\mathbf{d_f} = (3 - 1)(3 - 1)$,

$\mathbf{d_f} = \underline{\mathbf{4}}$

Level of significance is **5%**

Therefore $\chi^2_{(0.05)(4)}$ from the Chi-square distribution table is **9.488**

Reject H_0 if $\chi^2_{\text{cal}} > \chi^2_{(\alpha)(\text{df})}$

The findings from Chi-Square test reflected that χ^2_{cal} is **10.71,** a figure greater than $\chi^2_{(\alpha)(\text{df})}$ which stands at **9.488** at 4 degrees of freedom and 5% level of significance. In light of the Chi-square results, the researcher rejects null hypothesis ***(H_0)*** and conclude that there is a relationship between age and growth strategies pursued by MFIs. Therefore, this means that the age of MFI is influencing the type of growth strategy to follow. Information on the observed frequency table 4.3 indicates that most young aged MFI as at the year 2015 had ventured in microfinance business in the mood of rapidly grabbing geographical market share whilst those that have been in this business for more than ten appreciated market penetration growth strategy. The implication of market development strategy adopted by young aged MFIs is that, many times it comes at the expense of product/ services quality which cost their reputation according to Wharton (2013) which states that competitor-oriented objectives are counterproductive. This seems to be the case as most of MFIs which have followed market growth path are offering microcredits only.

4.5 Effectiveness of growth strategies on profitability.

The main objective of this particular study sought to examine the effectiveness of growth strategies on financial performance. The researcher collected both primary and secondary data to effectively examine the relationship between growth strategies and profitability measured using ROA and ROE. Since the study focused on a timeframe of four years, averages of ROA and ROE for period of 2012 to 2015 for each MFI are used. In order to examine the effectiveness of growth strategies, a regression model was estimated and the results are discussed below. To determine the growth strategies adopted by an institution, number of branches owned and products offered was used. The t- statistic value has been used as a measure of how significant the relationship is between the two variables. According to Vamndem (2008), Significant relationship between variables found when t-statistic is either above +1.96 or below -1.96 and the examination of the relationship between each of growth strategies and profitability measures is determined through bivariate regression analysis where two variables are analyzed. Study results was linked to reviewed literature after the relationship between each growth strategy and profitability measures (ROA and ROE) was examined.

4.5.1 Effectiveness of market development strategy on profitability

The primary financial objective of venturing into business is to maximize profits at all costs. The second objective of this study sought to examine the effectiveness of market development as a growth strategy on profitability. In order to examine the effectiveness of market growth strategy on financial performance, a regression model was estimated. ROA and ROE were used as measures of profitability to test the relationship. The following hypothesis was formulated to test the effectiveness of market growth on profitability.

H_0 – Market development growth strategy is not effective on profitability in MFIs.

H_1 – Market development growth strategy is effective on profitability in MFIs.

Table 4.7 illustrates the results of a simple linear regression between market development and ROA as a profit measure tested using field data.

Table 4.7. Regression results for market development and ROA.

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
md	-.0023012	.0006605	-3.48	0.001	-.0036266	-.0009758
_cons	.3285164	.0196658	16.70	0.000	.2890542	.3679787

Where roa = return on assets

md= market development growth strategy

Source: Survey 2016.

The results in table 4.3 shows that the coefficient on return on assets is negative and significant at 5% level of significance. This is because the t-value is -3.48 which is below -1.96. Vamndem (2008) opines that any regression result with a t-value above 1.96 or below -1.96 depicts a significant relationship between the variables. The findings indicate that increase in one branch while offering one product in microfinance business results in 0.0023 decrease on ROA. This is in line with Alexander, (2000) and Schwalbach, (1991) which stipulates that there is a negative relation between market growth and profitability. This implies that the more MFIs opens more branches whilst offering one product/service, in such a competitive environment, the decrease in asset utilization. This therefore means that the implication of putting a central focus on geographical market share is underutilization of MFIs resources such as human resources. Assets are used to generate income for the entity hence failure to utilize them at full capacity has detrimental effects of firm's profits. In order to validate the results on how effective market growth is on profitability, another bivariate regression was estimated to measure the same growth strategy but this time with ROE as profitability measure. Table 4.8 shows results computed using Stata 11.

Table 4.8. Regression results for market development and ROE.

roe	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
md	-.0026116	.0006205	-4.21	0.000	-.0038566	-.0013665
_cons	.5407696	.0184737	29.27	0.000	.5036994	.5778398

Where roe = return on equity.

md = market development growth strategy

Source: Survey 2016

The results in table 4.8 has authenticated the results produced in table 4.7 as it reflects a negative and significant coefficient on ROE at 5% level of significance. Results presented shows that t-value is -4.21 indicating significant inverse relationship between the two variables. The findings show that a unit increase in branches in results in 0.0026 decrease on ROE. Based on the findings, focusing on grabbing geographical market where there is intense competition is inversely related to return on investment in the microfinance business. The implication of concentrating on opening new outlets is that, it creates intense competition amongst MFIs forcing them to fight for customers, this result in compromising credit worthiness assessments, multiple loans taking by customers leading to over indebtedness that eventually lead to high levels of non-performing loans as supported by Schicks and Rosenberg, (2011). This reduces profits margins and return on investment. The findings produced from both profitability measures namely ROA and ROE depicts that there is negative relationship

Results reflected in tables 4.7 and 4.8 are from secondary data. In order test the compatibility of results produced from secondary data with that of primary data, the researcher further subjected respondents' views regarding the effectiveness of market growth on profitability into Stata 11 to compute a frequency table. The study made use of Likert scale where 1,2,3,4 and 5 stands for strongly disagree, disagree, neutral, agree and strongly disagree respectively. Respondents were required to indicate the extent to which they agree with the statement which states that "***Market development growth strategy is very effective on profit maximization in MFIs***". The findings from the responses are shown in frequency table 4.9 below.

Table 4.9. Respondents' views on market development.

mds	Freq.	Percent	Cum.
1	24	44.44	44.44
2	13	24.07	68.52
3	10	18.52	87.04
4	6	11.11	98.15
5	1	1.85	100.00
Total	54	100.00	

Where mds=market development growth strategy

Source: Survey 2016.

The findings in table 4.9 indicates that 68.52% are of the view that market growth strategy is ineffective on enhancement of profits in MFIs. Information from most interviewees also indicated that in the context of microfinance business where they are no barriers to entry, market growth strategy is not ideal simply because, once people realized that the business is profitable, they will flood the industry and cause intense competition that hurts profits.

These findings are in line with the results shown in tables 4.7 and 4,8 where market growth strategy was measured using profitability measures which depicts inverse relationship between market growth and profitability. An inverse relationship means that market development growth strategy is ineffective therefore the study accepts ***(H_0)*** null hypothesis and conclude that market development is not effective on profit enhancement in microfinance business.

The results produced in tables 4.7, 4.8 and 4.9 regarding the effectiveness of market development on profitability are supported by the literature theorized by Alexander, (2000) and Schwalbach, (1991) which postulates that there is a negative relationship between financial performance and market share, and in most cases profit ratios declines when there is stiff competition**.** It is also in support of Schwalbach, (1991)'s view which suggests that high market share may hurt the profitability of the firm due to availability of various diseconomies of scale such as diseconomies of confusion. Wharton (2012), suggested that setting competitor- oriented objective such as market share is counterproductive and it hurt profitability.

Furthermore, these findings are similar with empirical results found by Armstrong and Green (2012), on their study they conducted on twenty companies using return on assets and after tax return on sales that revealed that market oriented objectives and profits were negatively related ranging from -2.8 to -0.73. A study on Toyota by Maynard and Tabuchi, (2010) produced the same results when the car manufacturing giant made an ambitious market share grab of about 15% between 2002 and 2010 and it lost its reputation due to poor quality products which reduces its revenues.

However, the results are contrary with Buzzel (2004)'s theory which states that there is a positive relationship between market share and financial performance, arguing that the increase in market share always results in sales improvement. It is also contrary with Porter (1980)'s view which opines that there is a U shaped relationship between market and profitability. In the context of microfinance business, this research results disagree with Buzzel (2004) and Porter (1980)'s views as it shows a negative relationship. This therefore deduce that pursuing market development as a growth strategy in microfinance business results in decline in profits margins as indicated by a negative relationship shown in table 4.7 and table 4.8. This might be due to the fact that the average market share per MFI as at December 2015 was 0.006, a sign of low concentrated and very competitive market (RBZ, 2015). It's difficult to increase profits by increasing market share in a perfect market competition.

4.5.2 Effectiveness of product development on profitability

This study also sought to examine the effectiveness of product development growth strategy on financial performance in microfinance. The following hypothesis was formulated to test the relationship.

H_0 – Product development growth strategy is not effective on enhancing profitability in MFIs.

H_1 – product development growth strategy is effective on enhancing profitability in MFIs.

Table 4.10 below shows regression results between product development and ROA from the data collected from the field.

Table 4.10. Regression results for ROA and product development growth strategy.

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
pd	.0091769	.0040726	2.25	0.028	.0010046	.0173492
_cons	.2738989	.0195943	13.98	0.000	.23458	.3132178

Where roa = return on assets

pd= product development growth strategy.

Source: Survey 2016

The results in table 4.10 depicts that the coefficient on return on assets is positive and significance at 5% level of significance. The t-value is 2.25 which makes the relationship significant since it is above 1.96. From the findings, it depicts that introducing one new product whilst maintaining few branches results in 0.009 increase in ROA. This means that the more the MFI develop existing or introduce new products, the positive impact it has on profitability. In addition, these results reflect that the organization is fully utilizing its assets to generate income and increase profits. Amha (2008) and Wright etal (2003) supported this asserting that there is a positive correlation between product development and profitability. To validate the results, the researcher also examines the relationship of product growth strategy with ROE to be satisfied that indeed product development is effective on profitability. The relationship was examined using simple linear regression and the results produced are shown in table 4.11.

Table 4.11. Regression results for ROE and product development growth strategy.

roe	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
pd	.021639	.0029083	7.44	0.000	.0158032	.0274748
_cons	.4559206	.0139923	32.58	0.000	.4278429	.4839982

Where roe= return on equity

pd= product development growth strategy

Source: Survey 2016

The study findings shown in table 4.11 confirmed the positive and significant coefficient on return on equity at 5% level of significance. The measure of significance of the relationship between the variables in this study, t-value is 7.44 which is above the standard separation point of 1.96. This articulates that, in as far as return on equity is concerned, product development growth strategy is very effective. Results displayed in table 4.11 indicate that MFIs that are following product development in their pursuit for growth are realizing high investments returns. This could be due to the fact that these MFIs are not overinvesting on grabbing geographical market share but rather investing in new but related products and create a strong bond with their clients.

The researcher went further to validate the findings produced from the examination of the effectiveness of product development strategy on profitability measures (ROA and ROE) by subjecting respondent's views about the effectiveness on product growth strategy into a Stata software to compute a frequency table. The administered questionnaire asked participants the extent to which they agree with this statement "***Product development growth strategy is very effective on enhancing profitability in microfinance institutions***". Likert scale was used where

1,2,3,4 and 5 stands for strongly disagree, disagree, neutral, agree and strongly disagree respectively. The results found are reflected in a frequency table 4.12.

Table 4.12. Respondents' views on product development.

pds	Freq.	Percent	Cum.
2	1	1.85	1.85
3	4	7.41	9.26
4	12	22.22	31.48
5	37	68.52	100.00
Total	54	100.00	

Where pds= product development growth strategy

Source: Survey 2016

As shown above in table 4.9, 90.74% (68.52%+22.22%) were of the view that product development growth strategy is effective in enhancing profitability in microfinance institutions. Information from interviewees also reflects the same position. These findings are in agreement with those produced on regression analysis where product growth and profitability measures (ROA and ROE) indicated positive relationship between the two variables. This therefore implies that product growth strategy is ideal if MFIs have a desire to grow profitably. In that regard, the study rejects null hypothesis ***(H_0)*** and conclude that product development is an effective growth strategy on enhancing profitability. Adopting product development as a growth strategy ensures effective utilization of organization assets and resources and this enhances operational efficiency and effectiveness. The findings of the study are supported by Amha (2008) who argues that product development in MFIs not only add value but reduces transaction costs linked with providing financial services thereby maximizing revenue generation and also increase demand for loans. Similarly, Wright etal (2003) claims that promoting microfinance's new products to new prospective users can attract and increase more new customers of microfinance products.

On the same note, these study findings are similar to empirical studies conducted by Goedhuys and Veugelers (2008) which found that innovation strategies of companies specifically technology creation and its effect on successful process and product innovations using World Bank's

Investment Climate Survey (ICS) data collected in Brazil in 2003. Goedhuys and Veugelers (2008) findings indicated that innovative performance is a critical tool for firm's growth specifically a combination of product and process innovation. Similar results were also found by Liu, Lin and Huang (2014) which found that product development is positively related to operational efficiencies and organization effectiveness which results in more profits being realized.

However, study findings are contrary to Mbithi et al (2015)'s results on the research carried out on the effectiveness of new product development on company performance in the sugar cane industry which included both private and public companies in Kenya. A total of 120 managers participated in the study and the findings showed that new product development didn't have significant impact of all performance indicators. The results reflected a very weak relationship of less than 3% between new product development and organization performance. The difference in findings might be due to the type of market in which organizations are operating in. In line with the findings found on this particular research on MFIs, developing new products is a very effective way of growing profitably. Developing existing financial services and introducing new services attract more customers and this increases sales volumes and profits margins.

4.5.3 Effectiveness of market penetration of profitability

The last objective sought to examine the effectiveness of market penetration as a growth strategy on profitability. Like other growth strategies examined above, ROA and ROE were used as profitability measures. In order to examine how effective, the following hypothesis was formulated and the regression results generated from Stata 11 are shown in table 4.13.

H_0 – Market penetration growth strategy is not effective on profitability in MFIs.

H_1 – Market penetration growth strategy is effective on profitability in MFIs.

Table 4.13 Regression results for ROA and market penetration growth strategy

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
mp	-.0007931	.003887	-0.20	0.839	-.008593	.0070068
_cons	.2953097	.0228679	12.91	0.000	.2494219	.3411974

Where roa = return on assets

mp= market penetration growth strategy

Source: Survey 2016

The results shown in table 4.13 above reflects a negative and insignificant coefficient on return on assets at 5% level of significance. This is because the t-value is -0.20 which is above -1.96 therefore the relationship is not significance. This might mean that penetration growth strategy is short-lived due to market saturation and this clipped the potential of the MFI to keep growing financially. To authenticate the findings, market penetration growth strategy was examined using another profit measure (ROE) to see if the same results will be found. Research data was subjected to Stata 11 to regress the two variables. Table 4.14 shows results found.

Table 4.14. Regression results for ROE and market penetration growth strategy.

roe	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
mp	-.0032637	.008381	-0.39	0.699	-.0200813	.013554
_cons	.505379	.0228386	22.13	0.000	.4595499	.5512081

Where roe = return on equity

mp= market penetration growth strategy.

Source: Survey 2016

As shown above in table 4.14, the findings depict a negative and insignificance coefficient on return on equity. The findings show the same results produced when market penetration growth strategy was examined using ROA as a profit measure in table 4.13. The t-vale is -0,39 which is above -1.96 proving that the relationship is insignificance. Market penetration strategy emphasize on rigorous marketing to the existing market to improve sales growth. The implication of such a strategy in microfinance sector is that, it reduces competition and enhance price reductions in order to convert non users to be users.

The researcher further analyzed data from questionnaire using a frequency table on respondents' views on the effectiveness of market penetration strategy on financial performance in the context of microfinance business. Likert scale was used where 1,2,3,4 and 5 stands for strongly disagree, disagree, neutral, agree and strongly disagree respectively. Respondents were asked the extent to which they agree with the statement which states that "***Market penetration is very effective in***

profit maximization in microfinance business". The frequency table 4.15 shows the results generated from a statistical package.

Table 4.15. Respondents' views on market penetration.

mps	Freq.	Percent	Cum.
2	14	25.93	25.93
3	26	48.15	74.07
4	12	22.22	96.30
5	2	3.70	100.00
Total	54	100.00	

Where mps = market penetration strategy

Source: Survey 2016

The results in table 4.15 shows a mixed response without showing a clear position on whether market penetration is effective or not. Forty-eighty percentage of the respondents indicated that they were neutral on whether market penetration is effective or not whilst 25.93% and 22.22% of participants disagree and agree that its effective respectively. Interviewees also provided the same mixed response regarding the subject matter. Based on the results indicated in tables 4.13 and 4.14, the study accepts null hypothesis ***(H_0)*** and conclude that market penetration growth strategy is not effective in enhancing profits in microfinance business. This implies that MFIs that are pursuing market penetration as a growth strategy are not realizing significance increase in after tax income. The implication of such a strategy is that, the firm may end up paying the costs of not growing like not having access to exploit benefits brought by economies of scale.

The study findings are supported by Oloko and Sije (2013)'s literature which states that pricing strategies' effectiveness on organization performance depends on the type of business and market characteristics. Empirical studies conducted by Frank et al (2014) in United States of America on Small business produced similar results where the was no significant relationship between penetration strategies and performance. However, empirical results produced by Anna *et al.* (2012) found that statistically, the is positive and significant relationship penetration and firm's performance. This means the effectiveness of market penetration as a growth strategy depends on the operating environment and the type of business. From the findings of this study, it can be inferred that in microfinance business, market penetration growth strategy has no significant relationship with profitability hence not very effective in profit maximization. This could be due to stiff competition in sector as the microfinance business in Zimbabwe is characterized by low concentration with the average market share standing at 0.006 according to RBZ (2015).

4.6 Hypothesis acceptance or rejection.

The major aim of this study was to assess the effectiveness of growth strategies on profitability. This was done by subjecting data pertaining growth strategies and profitability measures (ROA and ROE) into a Stata 11 statistical package to compute a bivariate regression analysis after a regression model was estimated. A negative correlation between the growth strategy and profitability (ROA and ROE) means that the growth strategy is not effective while a positive relationship means that the growth strategy is effective on profit maximization. The study findings showed that there is a significant relationship between growth strategies in particular market development and product development therefore the researcher reject **null hypothesis** (***H_0***) and conclude that there is a significant relationship between growth strategies and profitability in microfinance business.

4.7 Correlation analysis

Examination of relationship between growth strategies and financial performance indicated that market development and product development growth strategies have significant relationship with profitability, while market penetration has insignificant relationship. However, it is important to note that some relationships might be affected by pairwise correlation of independent variables and give misleading information. According to Gujarati (2008), a pairwise correlation value greater that 0.8 or below -0.8 is subject to the problem of severe collinearity, and a value below 0.8 and above -0.8 indicates that there is no presence of severe collinearity. In that regard, the researcher conducted a correlational analysis to examine the presence of collinearity between independent variables for growth strategies with significant relationship only. Table 4.16 shows a correlation between growth strategies and ROA as a profitability measure.

Table 4.16 Correlation matrix (ROA)

	roa	md	pd
roa	1.0000		
md	-0.4350	1.0000	
pd	0.2983	-0.2878	1.0000

Where roa =return on assets.

md=market development growth strategy

pd =product development growth strategy

Source: Survey 2016

Table 4.16 shows a lower correlation of -.0.28 between independent variables (market development and product development growth strategies) which depicts that there is no collinearity that has the potential to inflate the variance of estimates. This means that results produced on regression analysis between growth strategies and profitability were indeed significant.

4.8 Chapter summary

The chapter gave a detailed analysis of the effectiveness of growth strategies on profitability. The study used Stata 11 to compute regression analysis after a regression model has been estimated. ROA and ROE was used as profitability measures therefore all growth strategies was examined using both measures. Data was then presented and analyzed through the use of frequency tables computed by Stata 11. The study found that there is a significant relationship between growth strategies and profitability hence null hypothesis was rejected. Study results shows product developments is effective while market development is ineffective on profitability in MFIs.

CHAPTER 5

SUMMARY OF FINDINGS, CONCLUSIONS AND RECCOMENDATIONS.

5.0 Introduction

This chapter lays a summary of the study, tying up research objectives that the research sought to achieve and the findings revealed after examination on the effectiveness of growth strategies on profitability. A summary of how the study was carried out and the implication of the research findings is also covered. This chapter will conclude by giving recommendations to deal with deficiencies caused by pursuing wrong growth strategies in microfinance business. Areas of further research in connection with this study will also be recommended in this chapter.

5.1 Summary of the findings

This study aimed at assessing the effectiveness of growth strategies on profitability in microfinance. Literature relating to study objectives was critically analyzed to get views from different perspectives. The researcher used descriptive research design to identify growth strategies pursued by MFIs and correlational research design to examine the relationship between growth strategies and profitability in determining the effectiveness of each growth strategy. Data pertaining the study was collected using questionnaires and interviews to ensure that reliability and validity is achieved. ROA and ROE were used as profitability measures while products and number of branches owned by the institution was used as growth strategy measure. Each growth strategy was measured using both profitability measures in order to authenticate the findings through the use of simple linear regression. This enabled the researcher to achieve the study objectives and the summary of the findings as per objective is briefly explained below:

5.1.1 **Growth strategies being pursued by MFIs.**

It had been revealed that MFIs implemented organic (internal) growth strategies in their pursuit for growth. Study findings discovered that most MFIs have adopted market development followed by market penetration and very few have adopted product development strategy. In addition, research results showed that although MFIs are pursuing organic growth strategies, no single MFI had adopted diversification as a growth strategy.

In that regard, study findings from chi-square test showed that there is a relationship between age of an MFI and growth strategies with most young aged MFIs as at 2015 adopted market expansion overdrive strategy. These are the very same results found by Yogo, (2013) and Rasmussen, (2009) on their empirical studies on growth strategies adopted by SMEs in Kenya and Denmark respectively.

5.1.2 Effectiveness of market development as a growth strategy on profitability.

The findings from the study revealed that there is negative and significant relationship between market development and profitability. Both profitability measures (ROA and ROE) produced inverse relationship therefore market development is ineffective in enhancing profits in microfinance business. This means that the more MFIs focus on grabbing geographical market share by increasing number of branches, the more these MFIs are underutilizing their assets and failing to generate higher returns from the investments leading to decrease in profit margins. The findings are similar to empirical studies conducted by Armstrong and Green (2012) on twenty different companies and Maynard and Tabuchi, (2010) on Toyota.

5.1.3 Effectiveness of product development as a growth strategy on profitability.

The study found out that product development and profitability have a positive and significant relationship in microfinance business. Results produced a positive correlation between product development and ROA meaning that MFIs pursuing this strategy are fully utilizing their assets to generate income. The examination of the relationship between product development strategy and ROE had confirmed positive relationship. This means that once a MFI focus on developing new products and not on grabbing geographical market share, it realizes an increase in both ROA and ROE due to high degree of operational efficiency. Empirical results from the study conducted by Goedhuys and Veugelers (2008) found the same results reflecting that product development is effective on organization performance.

5.1.4 Effectiveness of market penetration as a growth strategy on profitability.

The study results indicated that there is insignificant relationship between market penetration strategy and profitability measures. Results produced between market penetration and ROA indicated a negative and insignificant relationship while results produced between the same strategy and ROE showed a positive but insignificant relationship again. This means that market penetration is not the ideal growth to follow in microfinance business if the MFI is to realize significant financial growth.

5.2 Conclusions

After the examination of the effectiveness of different growth strategies adopted by MFIs on financial performance through the use of regression statistical tool. Conclusions can be made basing on the findings revealed from the statistical tests. The following are conclusions drawn from the results revealed.

5.2.1 Growth strategies adopted by MFIs

From the findings, it can be concluded that MFIs that are operating in Midlands province pursued three organic growth strategies namely market development, product development and market penetration. In connection with the above findings, no single MFI has adopted any form of external growth strategy and one of the riskiest internal growth strategy which is diversification.

5.2.2 Effectiveness of market development strategy on profitability.

In line with the results revealed from the examination of the relationship between market development strategy and profitability. It can be concluded that market growth strategy is ineffective on enhancing profitability in microfinance business. An increase in branches is inversely related with ROA and ROE hence it is not the best growth strategy to pursue for MFIs that have the desire to grow. Correlational analysis reflected a -0.43 and -0.5 of ROA and ROE respectively, a sign of being ineffective.

5.2.3 Effectiveness of product development on profitability.

Regression results reflected a positive and significant relationship between product growth and profitability measures. A correlation analysis revealed a strong positive relation of 0.72 between product growth and ROE. Against this background, it can be concluded that product development is effective in enhancing profitability in microfinance business. From the findings, MFI that focus on developing existing and new products and not on opening new branches yields more profits and is financially healthy.

5.2.4 **Effectiveness of market penetration on profitability.**

In light with the findings revealed, it can be concluded that market penetration is ineffective in profit maximization in microfinance business. This is because the results indicated an insignificant relationship between market penetration and any of profitability measures (ROA and ROE). This therefore means that focusing on findings ways to penetrate to existing market is not good enough for profit enhancement but it should be complemented by spicing up the product/services through product development.

5.4 Recommendations.

In view of microfinance business which is characterized by low concentration and a highly competitive market. The researcher recommends growth strategies that are effective on profit enhancement based on the findings of the study and the recommendations are as follows:

5.4.1 MFIs should adopt product development growth strategy in their pursuit for growth as it is effective on enhancing profits. In addition, it promotes creativity and innovation which are the critical aspects if the institution is to survive in this global economy. This is in line with Goedhuys and Veugelers (2008)'s view that relates product innovations with firm growth and sustainability. Apart from that product development strategy helps in doing away with intense but unhealthy competition that hurts company profits and also the society at large.

5.4.2 Strategic alliances -MFIs should consider inorganic growth strategies by forming strategic alliances such as mergers and joint ventures. This is one major way of dealing with unnecessary competition in the sector which is not bringing any positive results as expected. This is supported by (Jeje 2015) which states that firms may go for strategic partnerships to do away with competition and operational challenges. Strategic partnerships do not only help to do away with competition but it also enables institutions to improve operational efficiency and to reduce their interest rates as there will be no cost inefficiencies to talk about. This eventually increase their sales volumes, reduce defaults rates and a rise in profits margins.

5.4.3 Market penetration should be complemented with product development if a meaningful financial growth is to be recognized. Microfinance business in Zimbabwe is characterized by low levels of concentration and intense competition. This means that microfinance market is saturated considering its target markets of low income earners. Under such circumstances, it's very difficult for any penetration strategy to yield any meaningful results therefore complimenting it with introducing new products using available resources is ideal. Banda (2015) shared the same view recommending firms to have creative thinking to come with new products that can help them to realize profits at a very low risk.

5.4.4 MFIs should diversify their markets and products to do away with concentration risk that they are exposed to. Rather than overinvesting in grabbing market share whilst offering consumption loans for civil servants, MFIs should invest in a variety of products and offer more of productive loans that boost the economy. By so doing, they avoid situations where their sustainability is threatened simply because one sector is affected in a negative direction. Diversification of efficient products reduces the risk where the whole business is affected by similar conditions in a similar manner at the same time. For example, if the government failed to pay civil servants, most MFIs will have no choice but to close operations.

5.4.5 Young aged MFIs and those with the thinking of investing in microfinance business should avoid doing so in the mood of rapidly grabbing geographical market share because it comes at a cost that can threaten their existence in that business. This is because study findings revealed that there is a relationship between age of MFI and growth strategies pursued.

5.5 Further research recommendations.

The researcher recommends that further studies should be conducted on effectiveness of growth strategies on enhancement of financial inclusion. Focus should be on both accessibility and affordability of the services to find out if MFIs are indeed serving their purpose of enhancing inclusive growth.

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LIST OF APPENDICES

APPENDIX A

QUESTIONNAIRE

Please assist by answering all the questions in this questionnaire. Your information will be treated in strictest confidentiality and only used for academic purposes without any unfair treatment of any nature.

INSTRUCTIONS
i) Tick [√] where applicable in the spaces provided.
ii) **Do not write any names on the questionnaire**.

Section A: Background Information

Tick the appropriate response [√].

1 Gender

Male [ ]　　　　Female [ ]

4. Department worked

Operations and Business development [ ]　　　　Finance [ ]

Marketing [ ]　　　　Credit control [ ]

NB: please tick where appropriate

5) Please indicate your level of education by ticking the appropriate box?

No formal education	
Primary level	
Secondary level	
College level	
University level	

Organization information

1) Indicate by writing on a space provided below the name of the organization you work for.
…………………………………………………………………………………………………

2) When did your organization start operating? Write the year in the space provided below.

Year	

3) What position do you held in your organization? Indicate by ticking.

Senior Manager	
Branch Manager	
Loans officer	

Section B: Growth strategies

1) Has your organization adopted any growth strategy? Tick in an appropriate box.

Yes	
No	

2) What growth strategy did your organization adopted? Write in the space provided.

To what extent do you agree with the following statements in connection with the growth strategy adopted by your institution. Use the scale of 1-5 provided.

1 Strongly disagree 2 Disagree 3 Neutral 4 Agree 5 Strongly agree.

Product development	1	2	3	4	5
Our organization has achieved growth by developing the existing products.					
The institution is introducing new but related product to the existing and new market as a way to grow.					
Market development					
Our organization has achieved growth by growing its market share through opening of new branches.					
The organization has increased sales volume by providing services to new markets.					

Market penetration					
Our organization has capture large market share by penetrating deeper in the existing market with existing products.					
The organization has increased sales volume by marketing to the existing market segments with existing products.					
Diversification					
Our organization has achieved growth by selling new products to the new market segments.					
Selling new products to new markets has increased sales volume and market share of the organization.					
Mergers					
Our organization has achieved growth by merging with others institutions.					
Merging with other institutions has increased sales volume.					
Acquisition					
Our organization has achieved growth by form of acquisition.					
Growth by acquisition has increased sales volume of the organization.					

2a) Does your organization offer a variety of products or it is offering one product?

One product	
Variety	

2b) If your answer is variety in 2a, what are the products/services offered by your organization? Write in the space provided below.

Products/services

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

3a) In your own opinion, do you think introducing new products is positively related with growth and profitability in your organization? Tick where appropriate

Yes	
No	

Give reasons for your answer above on (3a)

………………………………………………………………………………………………
………………………………………………………………………………………………

5a) How many branches do your organization have? Indicate by writing in a space provided.

5b) In your own opinion, do you think opening new branches is yielding positive results in terms of firm's growth and financial performance? Show by ticking

Yes	
No	

Give reasons for your answer above on (5b)

....
....

7a) Does your organization provide products/services to? Tick your response below.

Individuals who are not civil servants	
Individual who are civil servants	
Corporates	
Both individuals and corporates	

Section C: Growth strategies and profitability

1) To what extent do you agree or disagree with the following statements in relation to growth strategy and profitability? Use the 1-5 scale provided.

1. Strongly Agree 2. Agree 3. Neutral 4. Strongly Disagree 5. Disagree.

	1	2	3	4	5
Market development growth strategy is very effective in profit maximization in Microfinance institutions					
The more the organization open new branches, the more the revenues also increase.					
Product development growth strategy is very effective in profit maximization in Microfinance institutions					
The more the organization develop existing products and introducing new products, the increase in profitability.					
Diversification growth strategy is risk but very effective in profit maximization in Microfinance institutions.					
Venturing into completely new market segments with new products is the best way to grow profitably					
Market penetration has very low risk and is very effective in generating income in microfinance institutions.					
Concentrating on the existing market lead to optimal utilization of resources and it increases profits of the organization.					
Mergers and acquisition are the best growth strategies that yield more profits in microfinance institutions.					

Thank you for your cooperation

APPENDIX B

INTERVIEW GUIDE

Introduction

The interviewer introduces himself and the purpose of the interview.

Participants Background

- May you please introduce yourself.
- What position do you hold and for how long have you being on that position?
- For how long does your organization have been in this business of microfinance?

Growth strategies.

- I understand like any other organization; your organization is also growing. What growth strategy or strategies did your organization adopted?
- How many branches do you have at the present moment?
- As an organization responsible for poverty alleviation and financial inclusion, what services and products do you offer to this previously disadvantaged group who happen to have been excluded in the financial services.
- As a manager, do you think pursuing market development as a growth strategy in the context of microfinance business is effective on profit enhancement.
- You have highlighted your view on the effectiveness of profitability. How about your views to other growth strategies such as product development and market penetration's effectiveness on profitability in microfinance business?

Thank you for your participation, stay blessed.

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