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Organizational Culture, Industry Competition and Performance Of Microfinance Institutions In Kenya

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The objective of our study is to assess the influence of organizational culture and industry competition on performance of microfinance institutions in Kenya. The population of the study comprise microfinance institutions that are members of the Association of Microfinance Institutions (AMFI) in Kenya. We used descriptive cross-sectional survey design. We collected secondary data from annual industry performance reports by AMFI. Primary data were collected through structured questionnaire. We analyze data through Chi-square tests, factor analysis and regression analysis. Results of Cronbach's alpha test confirm reliability of our measurement scales. Our results demonstrate that organizational culture has significant positive influence on performance when the latter is measured using subjective performance indicators. However, the relationship between organizational culture and financial performance is not statistically significant. The results also indicate that industry competition has significant but, moderate positive influence on firm performance. Our results do not confirm significant influence of interaction between organizational culture and industry competition on firm performance. Finally, our results show that the joint influence of organizational culture and industry competition on performance is statistically significant. Findings of the study have implications for theory and marketing practice. Our results support resource based view and resource advantage theories of competition. The results imply that possession of strong organizational culture that enhances reconfiguration and deployment of organizational resources is a key success factor in the microfinance industry. Findings of the study also imply that industry competition is beneficial to firms within the industry. The above findings inform our conclusion that organizational culture positively and strongly influence performance outcomes in the microfinance industry. However, the study is limited by the cross-sectional research design used. Based on the limitations of the study, we recommend the use of longitudinal research design to assess changes in organizational culture and performance over time.

Key words: *Organizational culture, industry competition, performance, microfinance*

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Introduction

Business organizations operate in complex, diverse, uncertain and competitive environment where coping mechanisms require consistency between organizational culture and strategies chosen by the firm. In competitive markets, managers are concerned with creating competitive advantage that leads to superior financial performance. This task requires managers to effectively coordinate organizational resources in ways that create synergy to address context specific market challenges. Consequently, resources of the firm must be effectively coordinated and deployed to address current and future customer needs while at the same time managing competitive threats. Organizational culture is one of the key internal resources that enable firms to produce valued market offerings. It does this by shaping behaviours and actions of organizational members and driving organizational adaptation to changes in the competitive environment.

Organizational market response behaviour is explained by the resource based theory and resource advantage theory. Resource advantage is an interdisciplinary theory which views competition as a constant struggle by firms for comparative advantages in resources that lead to superior financial performance. Industry competition is exemplified by the degree of product differentiation, threat of entry, rivalry among existing firms and shift in bargaining power between sellers and buyers. Microfinance institutions (MFIs) operate in a competitive financial sector where managers need to match organizational resources with marketing opportunities in the external environment. However, managerial discretion is limited without understanding the influence of industry competition on performance.

Although organizational culture is central to marketing management, its impact on marketing has not received satisfactory research attention (Deshpande & Webster, 1989). Treatment of organizational culture in marketing literature has been limited to understanding consumer behaviour in the market. In spite of the fact that some empirical studies have investigated the relationship between organizational culture and performance, inconsistent findings have been reported (Deal & Kennedy, 1982; Peters & Waterman, 1982; Ott, 1989; Denison & Mishra, 1995).While divergent results have been obtained by previous researchers, majority of the studies use cross industry samples. However, cultural values differ across industries. Therefore, testing the influence of organizational culture on performance within industry specific context is necessary. Consequently, we test the influence of organizational culture on performance within the microfinance industry in Kenya.

Other than organizational culture, performance of a firm is influenced by external factors such as industry competition. Increased competition in the microfinance industry leads to lower outreach hence negatively impacting on performance (Assefa, Hermes & Meesters, 2010). Conversely, some strand of literature suggests that competition leads to innovation and information asymmetry thereby, positively impacting on outreach. While several scholars (Mia & Clarke, 1999; Chong & Rundus, 2004; Nickell, 2006; Al-Rfou, 2012) have established

positive relationship between competition and performance, a negative relationship cannot be ruled out in highly competitive industries.

While scholars have devoted more attention to examining relationship between competition and performance, the influence of interaction between organizational culture and industry competition on performance has not been specifically researched. We contribute to closing the above knowledge gaps by pursuing four research objectives. First, we assess the influence of organizational culture on performance of microfinance institutions. Secondly, we examine the influence of industry competition on performance of microfinance institutions. Thirdly, we determine the influence of interaction between organizational culture and industry competition on performance. Finally, we examine the joint influence of organizational culture and industry competition on performance.

Theoretical Perspective and Hypotheses

Our study is guided by the resource advantage theory and resource based view theory of the firm. The resource advantage is a general theory of competition (Hunt & Morgan, 1995) that combines heterogeneous-demand theory with the resource-based theory of the firm. The theory assumes that demand is heterogeneous across industries and within industries. It presumes that superior financial performance is the key objective of the firm. The resource advantage theory maintains that the role of management is to recognize, understand, create, select, implement and modify strategies (Hunt & Madhavaram, 2006). In view of this demanding role, managers need to make decisions guided by sufficient, timely and reliable information. The resource advantage theory posits that externally oriented organizational culture enhances a firm's capacity to gather information about customers, competitors and developments in the macro-environment. Within the framework of this theory, organizational culture is treated as a resource that firms can use to build its capabilities.

Given that consumer perceptions influence value of the firm's market offering (Hunt & Morgan, 1995) organizations need to surmount information asymmetry by promoting adoption of market driven culture throughout the organization. In doing so, organizations are better placed to proactively respond to market needs and reduce threats from competition through delivery of superior customer value. It is however, important to note that resource advantage theory has been criticized for lack of evidence to justify its claims for superior explanatory and predictive power. For this reason, more empirical studies are necessary to test the propositions of the theory.

The resource based view of the firm assumes sustainable competitive advantage as the desired outcome of management effort (Fahy & Smithee, 1999). According to this theory, sustainable competitive advantage is obtained through accumulation of valuable resources that are difficult to duplicate by competitors. The uniqueness of organizational culture therefore, makes it a source of competitive advantage. Collis and Montgomery (1995) suggest that sustainable competitive advantage can be created on condition that resources have the attributes of inimitability, durability, appropriability,

substitutability, and competitive superiority. In essence, the theory suggests that unique, high value and rare organizational resources lead to superior performance through enhanced competitive advantage.

Resource-based theory suggests that firms possess heterogeneous resources that allow managers to execute value creating strategies. Even though it provides managers with a decision making framework, the theory has been criticized for failing to consider the impact of dynamic marketing environment (Lengnick-Hall & Wolf, 1999) in which many firms operate. Besides, the theory fails to explain how resources are developed and deployed to achieve competitive advantage (Priem & Butler, 2001). In the face of such fundamental concerns, it is important to test the relationship between organizational resources with performance under competitive market environment.

Organizational Culture and Performance

Organizational culture plays an important role in shaping behaviour and performance of organizational members. According to Deal and Kennedy (1982) performance improvement is linked to deliberate efforts by management towards developing organizational culture. In connection to this point, Bennett et al. (1994) argue that organizational success depends on achieving a good fit between strategy, structure and culture. Further evidence in support of organizational culture and performance relationship is found in Giberson et al. (2009) who emphasize that culture is an integrating mechanism that guides organizational behaviour. Once established, culture tends to become self reinforcing.

Despite the important role played by organizational culture in driving the behaviour of employees, several studies have reported inconsistent findings on the relationship between organizational culture and performance. A positive association has been reported by Deal and Kennedy (1982), Peters and Waterman (1982), and Denison and Mishra (1995). Scholars in support of a positive relationship between the two variables argue that strong cultures are necessary for superior performance because they enhance consistency in organizational performance efforts.

Conversely, Ott (1989) argues that culture is not universally relevant to all organizations and therefore, not all organizations possess a culture developed to a point that it could have significant influence on performance. In support of this view, Byles and Keating (1989) observe that underdeveloped organizational culture may have little or no effect on performance. According to Byles, Aupperle and Arogyaswamy (1991) strong culture may not necessarily translate to improved performance especially where culture is inconsistent with critical success factors. Inconsistent findings on the relationship between organizational culture and performance call for more studies to resolve the ensuing debate. Towards this end, we offer our contribution by testing the following hypothesis:

Hypothesis 1: There is a significant relationship between organizational culture and

performance of microfinance institutions

To test for the influence of organizational culture on non financial and financial performance, we decompose the above hypothesis into two sub-hypotheses as follows:

Hypothesis 1_a: There is a significant relationship between organizational culture and non financial performance

Hypothesis 1_b: There is a significant relationship between organizational culture and financial performance

Industry Competition and Performance

Performance of an organization is influenced by both internal and external environmental factors. While internal factors play an important role in matching a firm's strategy with the marketing environment, external environmental factors such as competition if unchecked can whittle away the strength of marketing strategy. Competition affects business firms in varying levels depending on the structure of the industry and market conditions. According to Asikhia and Binuyo (2012) increasing number of firms in the industry and shrinking opportunities for growth in the market increase intensity of competition. In turn, changes in performance affect market structure as relatively inefficient firms are replaced by more efficient firms.

A growing body of empirical evidence suggests that competition has both positive and negative impact on performance. In addition, some scholars suggest that competition do not influence organizational performance outcomes. For instance, a study by Patiar and Mia (2009) found no relationship between competition and performance. In contrast, other scholars (Mia & Clarke, 1999; Chong & Rundus, 2004; Nickell, 2006; Al-Rfou, 2012) found a positive relationship between competition and organizational performance. According to Chong and Rundus (2004) competition drives firms to improve product quality which in turn leads to customer satisfaction. As a result, increased customer satisfaction leads to enhanced organizational performance.

Although empirical studies have reported a positive link between competition and performance, a negative relationship has not been ruled out particularly in the context of microfinance industry. Evidence for negative relationship between competition and performance is found by Assefa, Hermes and Meesters (2010) who established that competition adversely affects MFIs through reduced outreach, efficiency, loan repayment and profitability. Furthermore, Shicks and Rosenberg (2011) argue that competition forces MFIs to maintain customer base by lowering lending standards and screening efforts. Thus, relaxed lending conditions result in high risk borrowers and consequently increased default rates. In light of the above exposition, we posit that:

Hypothesis 2: There is a significant relationship between industry competition and performance of microfinance institutions

Organizational Culture, Industry Competition and Performance

The need to respond to changes in the competitive business environment has led to increased attention to the manner in which organizational resources are used to influence performance. This task requires commitment by organizations to creating unique, complex and strong organizational culture that drive behaviour of organizational members towards achieving superior performance. Organizational culture influences performance through enhanced internal integration and adaptation to the external environment. According to Daft (2007) organizational culture can enhance performance by encouraging and motivating employees; promoting cohesion; and shaping behaviours of organizational members. Therefore, organizational culture can provide a strong foundation for effective performance management and organizational superiority (Kriemadis et al., 2012).

However, organizational culture does not affect performance in a generic manner. Its influence on performance depends on the nature and strength of shared values, norms and assumptions as well as the extent of competition within the industry. Competition plays a major role in the formulation and implementation of marketing strategies. As competition intensifies, performance of individual firms depends on their ability to adapt by delivering superior value to customers. Consequently, organizational culture contributes to adaptation by firms to changing market conditions (Kotter & Heskett, 1992). In a hostile competitive environment, firms with externally oriented culture acquire strategic information about industry competition thereby enabling the organization to enjoy information advantage. Externally oriented organizational culture enables firms to analyse and respond to competitive moves in the market thereby enhancing organizational capacity to develop or modify strategies that are likely to sustain performance over an extended period of time. From the foregoing, we hold that:

Hypothesis 3: The relationship between organizational culture and performance of microfinance institutions is significantly moderated by industry competition

Hypothesis 4: The joint influence of organizational culture and industry competition on performance is statistically significant

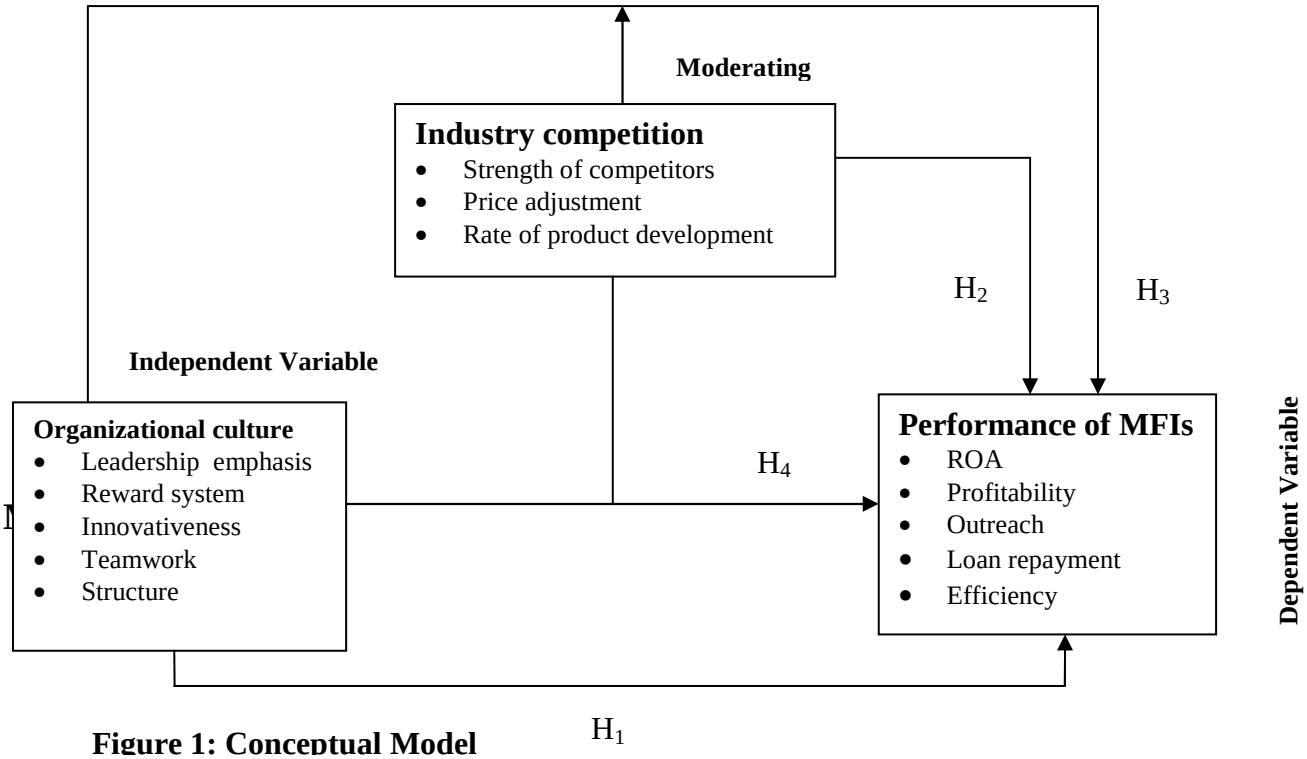

Figure 1: Conceptual Model

We adopt positivist philosophy because our study tests theory. A descriptive cross-sectional survey is the research design used in our study. The selection of this design is guided by research objectives, the nature of relationships we are testing; type of data and the span of data collection. The target population comprise all microfinance institutions in Kenya that are members of the Association of Microfinance Institutions (AMFI). The population is constituted as follows: 5 commercial banks offering microfinance services; 5 wholesale microfinance lenders; 16 deposit taking micro-finance (DTM) institutions and; 29 retail microfinance lenders. Microfinance institutions were chosen because of the nature of competition in the industry that forces firms to adopt organizational culture suitable for survival within the industry.

We collected data from both secondary and primary sources. Secondary data were extracted from published annual industry performance reports by AMFI and MF Rating Africa. We use secondary data to measure financial performance of MFIs and to test relationships among independent variables and financial performance. We used structured questionnaire to collect primary data. Although our measurement scales were adopted from literature, they were modified to fit the objectives of the current study. Consequently, a pilot study was conducted to assess the reliability of measurement scales. We pre-tested the questionnaire by administering it to senior managers of deposit taking co-operative societies in Nairobi City. Reliability was tested through internal consistency technique by computing Cronbach's alpha. Consistent with Cooper and Schindler (2006) we interpret alpha coefficient of 0.7 and above to mean satisfactory reliability. Cronbach's alpha coefficient ranged from 0.724 (Industry Competition) to 0.896 (Non Financial Performance) revealing a high degree of reliability. Non financial

performance and organizational culture in that order recorded the highest reliability scores. Industry competition has the lowest reliability score although it is above the 0.7 cut-off point for reliability test (Nunnally, 1978). We revised the questionnaire after the pilot test. The revised questionnaire was used to collect data from Chief Executive Officer, Human Resources Manager and Marketing Manager. Aggregated individual scores were used to reduce one source response bias.

We addressed concerns for validity by discussing the questionnaire with experts in marketing, organizational behaviour and strategy. Content validity was enhanced by adopting established measurement scales that were documented in literature. Construct validity was tested through factor analysis. To avoid Type I and Type II errors, we subject our data to tests for the assumptions of the regression analysis. The assumptions tested consist of linearity, reliability of measurement, homoscedasticity and normality. Normality was tested through P-P plots. Outliers were removed to reduce measurement error. The relationships between independent and dependent variables were examined for linearity. Homoskedasticity was checked by visual examination of the standardized residuals.

We analyze data by computing descriptive statistics such as mean sores and standard deviations. We test our hypotheses through regression analysis. Simple regression analysis was used to test hypotheses 1 and 2. Stepwise regression was used to test hypotheses 3 and 4. We test our hypotheses by estimating four regression models. Specifically, we regressed organizational culture, industry competition and interaction between organizational culture and industry competition on hypothesized performance as specified in the following set of equations:

$$y = \beta_0 + \beta_1 OC + e_1$$

$$y = \beta_0 + \beta_2 IC + e_2$$

$$y = \beta_0 + \beta_{31} OC + \beta_{32} IC + \beta_{33} U + e_3$$

$$y = \beta_0 + \beta_{41} OC + \beta_{42} IC + e_4$$

Where y represents performance ; β_0 is the regression constant ; $\beta_{1,\ldots,}$ β_{42} are the regression coefficients ; OC represents organizational culture ; IC is industry competition ; and U is the interaction term between organizational culture and industry competition.

We measure organizational culture using 12 question items consisting of statements that measure the extent to which the item matched cultural traits in the firm. Respondents were asked to rate the extent to which each statement matched organizational cultural practice on a scale of 1 to 5 where 1 represented ‘not at all’ and 5 represented ‘to a great extent’. Industry competition was measured using a five point Likert type rating scale with anchors ‘not at all’ (=1) to ‘strongly agree’ (=5). Some of the items included in the industry competition scale for instance include: ‘anything that one competitor can offer, others can match easily’; ‘our competitors react fast to moves by any single company within the industry’; and ‘customers have several alternative financial service providers to choose from’. The interaction term was computed

by obtaining the product of standardized scores of organizational culture and industry competition.

A continuous 5-point rating scale consisting of 1 to 5 where 1 represented 'much worse than competitors' and 5 stood for 'much better than competitors' was used to measure non financial firm performance. Financial performance data used consist of indicators such as debt/equity ratio, operating expense ratio, return on asset, average loan balance per borrower and loan repayment performance. Return on asset and loan repayment performance was measured in percentages. Average loan balance was measured in Kenya Shillings.

Results

One out of the 55 microfinance institutions could not be located. Therefore, we sent questionnaires to 54 organizations. Out of the 54 MFIs, one declined to participate. Fifty three (53) organizations participated in the survey translating to a response rate of 96%. The demographic characteristics of respondent firms covered information about age of the institution, and geographic coverage. Age of the firm was assessed by measuring the number of years that each firm has been operating as a microfinance institution. Outreach was assessed by measuring the number of branches operated by each microfinance institution. Thirty percent of the firms have been in operation for less than 5 years. Another 30% of microfinance institutions have been operating for a period ranging between 5 and 9 years. In contrast, 40% of the firms had been offering microfinance services for more than 10 years. Our results reveal low levels of outreach by MFIs. More than half (59%) of the firms operate in less than 10 branches. Seventeen percent of the firms own between 10 and 19 branches. The results further indicate that 34% of the MFIs offer their services in at least 20 branches across the country. Our Chi-square results indicate existence of a significant association between age of the firm and level of outreach. This means that older firms are better placed to accomplish their social performance objective than younger firms.

Our results support the hypothesis linking organizational culture with non financial performance. Table 1 show that organizational culture has significant positive influence on performance (R^2 = .409; F = 35.3, p-value $\leq$0.05) when the latter is measured using subjective performance indicators. It is interesting to note that although we demonstrate a significant relationship between organizational culture and non financial performance, we find no empirical evidence directly linking organizational culture with financial performance.

Table 1: Regression Results for the Relationship between Organizational Culture and Non Financial Firm Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2	F
	B	Std. Error	Beta					
1 (Constant)	.820	.466		1.761	.084			
Organizational culture	.712	.120	.640	5.942	.000	.640	.409	35.31

Source: Primary Data

The second objective of the study focused on assessing the influence of industry competition on performance of microfinance institutions. Based on evidence from literature we expected that competition has a positive and significant influence on performance. The regression coefficient of our results load as expected (R^2 = 0.133 and F = 7.815) supporting hypothesis 2. This implies that industry competition explains 13.3% of the variation in non financial firm performance. Our results concur with previous findings by Mia and Clarke (1999); Chong and Rundus (2004); Nickell (2006); and Al-Rfou (2012).

Table 2: Regression Results of the Relationship between Industry Competition and Non Financial Performance

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R^2
	B	Std. Error	Beta				
1 (Constant)	2.174	.502		4.330	.000		
Industry competition	.409	.146	.365	2.796	.007	.365	0.133

a. Dependent Variable: Organizational non financial performance

The third objective aimed at determining the moderating influence of industry competition on the relationship between organizational culture and performance. The results in Table 3 are not statistically significant and do not support hypothesis 3. Although model 1 in Table 3 is significant, upon introduction of the interaction term in model 1, non significant results are obtained. This illustrates absence of moderation effect.

Table 3: Regression Results for the Relationship between Organizational Culture, Industry Competition and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.686[a]	.471	.450	.44702	.471	22.269	2	50	.000
2	.693[b]	.481	.449	.44735	.010	.925	1	49	.341

a. Predictors: (Constant), Industry competition, Organizational culture

b. Predictors: (Constant), Industry competition, Organizational culture, Interaction term industry competition

Results of the joint influence of organizational culture and industry competition on performance are significant and positive. Therefore, hypothesis 4 is supported. Model 1 in Table 4 shows that in the absence of competition, organization culture explains 40.9% (R^2 = .409) of the variation in performance. However, organizational culture together with industry competition jointly explain 47.1% (R^2 = .471) of positive deviations in performance.

Table 4: Joint Influence of Organizational Culture and Industry Competition on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.640[a]	.409	.398	.46784	.409	35.311	1	51	.000
2	.686[b]	.471	.450	.44702	.062	5.861	1	50	.019

a. Predictors: (Constant), Organizational culture

b. Predictors: (Constant), Organizational culture, Industry competition

Discussion

Generally, our results support resource based view of the firm and resource advantage theory. Findings of the study imply that organizational culture is strategic intangible asset that creates competitive advantage leading to superior organizational performance. The results linking organizational culture with positive performance are consistent with findings obtained by Deal and Kennedy (1982); Peters and Waterman (1982); Denison (1984); and Denison and Mishra (1995). The results support resource heterogeneity and immobility proposition ricocheted by the resource advantage and resource based view theories. However, the results contrast findings obtained by Ott (1989); and Byles and Keating (1989). Although organizational culture has a significant and positive influence on performance, findings of the study suggest that the relationship is more significant where performance is assessed using subjective performance indicators. This is consistent with the resource advantage theory that links resources indirectly with financial performance. In theory, organizational

resources create a competitive advantage which leads to financial performance.

Our analysis reveals that organizational culture in the microfinance industry is manifest through customer orientation, teamwork, risk avoidance and planned response to forces emanating from the environment. In light of our findings, it is expected that firms with strong cultural values consisting of customer orientation and teamwork are likely to experience superior performance. Although culture is significantly and positively associated with performance, the possibility of a negative relationship cannot be ruled out. Once established, cultural values may encourage programmed response to changes in the business environment thereby, leading to organizational rigidity and reluctance to embrace change in management of marketing programmes.

Empirical evidence from previous studies indicates that competition has both positive and negative influence on performance of organizations. However, evidence on the relationship between industry competition and performance of microfinance institutions in scant. Therefore, the influence of competition on performance deserves empirical investigation. Unlike Patia and Mia (2009) who did not find a relationship between competition and performance, our study indicates that competition has a directional influence on performance. The results support resource advantage theory argument that linking performance outcomes with activities of competitors. Theoretically, competition promotes organizational learning which provides feedback signalling the link between resources and performance. Although a positive association between competition and performance was established, the strength of the relationship was modest.

In spite of existence of equivocal results in literature concerning the relationship between industry competition and performance, the current study empirically established non significant influence of interaction between organizational culture and competition on performance. This means that organizational culture and competition independently influence performance. The results signify uniqueness and enduring nature of organizational culture that enables firms to leapfrog competition. Moreover, organizations with positive and strong externally oriented culture are more likely to get closer to customers, gather market intelligence and respond decisively to competitive threats. As a result, organizational culture enhances delivery of superior value to customers by firms. In addition, organizational culture provides buffer against competition thereby, enabling firms to maintain and improve performance outcomes.

Implications of Findings

Our findings have implications for theory, policy and marketing practice. Our results imply that organizational culture once established; it becomes enduring and inelastic in the short run. Hence, organizational culture creates structural stability within an organization. Secondly, the results imply that industry competition has positive consequences for organizational performance. Therefore, policy makers should encourage competition through licensing, regulation and reducing anti-competition tendencies within the industry. Finally, the findings

have implications for the creation of competitive advantage. We have demonstrated that management can considerably improve performance of the firm by influencing formation and adoption of strong market driven and entrepreneurial organizational culture.

Conclusion

The study was designed to examine relationships between organizational culture, industry competition and performance of microfinance institutions. The findings showed that there is significant positive relationship between organizational culture and performance. In addition, a significant and positive relationship was established between industry competition and performance. Based on the strength of relationships empirically demonstrated in our analysis, we conclude that organizational resources have greater influence on performance than factors in the task environment. Although industry competition sensitizes firms to competitive threats and internal organizational weaknesses, organizational culture provides the impetus that creates competitive advantage translating into improved performance. Therefore, we conclude that while industry competition sets the stage for creation of comparative advantage, organizational culture directly contributes to creation of competitive advantage hence improved performance.

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