EFFECTS OF STRATEGIC RESPONSES BY MICROFINANCE INSTITUTIONS IN MANAGING THEIR OPERATIONAL COSTS: A CASE OF RAFIKI MICROFINANCE LTD

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ABSTRACT

Microfinance institutions in Kenya are associations of people who have come together with common goals geared at improving their livelihood economically. They are an important part of the financial sector in Kenya, providing savings, credit and insurance services to a large portion of the population. Microfinance institutions have played an important role in the development of the Kenyan economy which has led to the uplifting of the standards of living of the people. Through their Microfinance registration members are able to access quality education for themselves and their children; borrow funds for enterprise development, home purchase or construction and many other financial benefits. The study used descriptive research design because it sought to investigate in-depth management of Microfinance institutions. Rafiki Microfinance was the case study and the 47 staff members were the target population. A structured questionnaire was administered to the target population using drop and pick method, allowing one week for the exercise. Descriptive data analysis was used to process the collected data and presentation was by tables, pie charts and bar graphs. The study concluded that tight budget control, use of ICT in operations, effective organizational policies and staff training were strategies used by Rafiki Microfinance to manage operational costs. The staffs working at the Microfinance are quite aware of the aspects of budget control which is a connotation that this strategy could easily be applied in the microfinance to influence the operational costs. There is a very effective ICT framework in managing microfinance operational costs. Staff training in the Microfinance increases competitiveness, enhances innovativeness, increases flexibility, improves processes and procedures which contributes to improved operations, cost reductions and hence business performance. Focus is another a strategy adopted in managing operational cost in microfinance institutions. Budgeting techniques should be used effectively to achieve organizational coordination which can be positive tools. For the MFI should reconsider investing in advanced IT infrastructure to enhance effective ICT framework in managing microfinance operational costs enabled faster response time to customer demands/ complains, decrease in operating costs, increased productivity and achieve timely delivery of services to clients. Staff training approaches such as workshops, seminars or short courses need to be offered to the MFI personnel so as improve their knowledge and skills. There is need to relook at the organizational policy in place support to enhance the management of operational costs.

Key Words: *Budget Control, Information and Communication Technology, Customer Focus Strategy, Staff Training, Managing Operational Costs, Operational costs management*

INTRODUCTION

Microfinance Institutions have developed from being small and narrow donor dependent activity into becoming an industry, more focus has been put on the need for efficient operations (Baumann, 2004; Hermes, Lensink, & Meesters, 2008; Qayyum, 2006). There is Proliferated knowledge about the problems of inefficiency in the microfinance industry, and Many MFIs strive to increase their efficiency. However, few studies are actually testing whether the efficiency drivers, as claimed by the literature, have a significant effect on the Overall efficiency of MFIs. This thesis responds to the need for more knowledge of the effect of the strategic responses affecting the MFIs overall efficiency, focusing on operational costs.

Microfinance institutions in Kenya have in the recent past shown a tremendous growth. However competition from other financial institutions, Sacco's and commercial banks has also intensified forcing the Microfinance institutions to adopt a cost efficient way of doing business. This has come in the wake of the other players' strategy to target the markets which predominantly belonged to the Microfinance institutions. Commercial banks for instance are now offering financial services to salaried workers previously clients of Microfinance institutions and in some cases they are aggressively negotiating with employers to offer the workers negotiated interest rates for loans similar to those of the Microfinance institutions. This has led to most of workers abandoning Microfinance institutions for Commercial banks.

Owing to this reality the Microfinance institutions have experienced serious decline of its members and a challenge on its operations. The only option for them is to develop new strategies to retain their market share. One of the key strategies is to manage their operational costs. It was for this reason this study sought to find out the strategies adopted by the microfinance institutions to manage their operational costs.

OBJECTIVES OF THE STUDY

The general objective of the study was to investigate the strategies adopted by Microfinance institutions in managing their operational costs.

SPECIFIC OBJECTIVES

1. To analyze the effect of budget control strategy adopted by Microfinance institutions in managing their operational costs.
2. To assess the effect of ICT adoptability by Microfinance institutions as a strategy in managing operational costs.
3. To find out the effects staff training can lead to reduction of operating costs in Microfinance institutions.

4. To investigate if Customer focus is a strategy adopted in managing operational cost in Microfinance institutions.

EMPIRICAL REVIEW

In today's unpredictable business environment, many companies are looking for ways to streamline their operations and lower their operating costs (Barber, Graves, Hall, Sheath, & Tomkins, 2000). In this highly competitive market, the charge-backs inflicted by the chain stores create a new reality making companies realize that unless they streamline their operations and lower their operating costs, they risk severe losses. In the highly competitive market of outsourced call centers, the ability to differentiate from the pack and provide an exemplary level of service is critical to success - particularly in today's difficult economic times. Operational costs are a critical part of airline management, especially in the current economic environment. Each costing method, because of the different stock valuation used, produces a different profit figure and we will be looking at this particular point in detail (Burke and Terry, 2004). The day-to-day expenses incurred in running a business, such as sales and administration, as opposed to operating expenses.

With various factors affecting already narrow profit margins and rising indefinitely it's imperative that financial institutions find strategies to adopt in managing them. Some strategies succeed better than others (Kaplan and Hurd, 2002).The dependence of purpose and action is crucial to the particularity of the individual strategy. it is the unity , coherence and internal consistency of a company strategic decision that positions the company in its environment and give the firm power to mobilize strength and its likelihood of success in the market place (Andrew , 1982) in other words , his approach is that when strategies and there goals are known , they can be arrived at simultaneously , contemplating means and ends identified as "instrumentalism" then a stronger degree of interrelationship between the elements will result . This results will tend to produce a "better" strategy (Roland et al, 1976) Andrew (2006) further argues that a firm ought to view its own internal and external environment and develop strategies to act as catalyst to faster goal attainment .

A study by Ansoff (2005) defined strategy as a set of rules of decision-making. The purpose of strategy is to provide directional cues to the organization that enables it to achieve its objectives while responding to the opportunities and threats in the environment (Schendel & Hoffer (1999). A business strategy refers to the plan to achieve a competitive advantage. A business strategy takes resources into account. It also considers the advantage it has over competitors such as the size of the company or resources capabilities. A strategic plan is a comprehensive statement about the organization's mission and future direction, short term and long term performance targets and how management intends to produce the desired results and fulfill the mission given the organizations overall situation. Mintzberg et al (1976) suggests that strategy can be successfully defined as a pattern made up of both intended and unintended plans. This view tries to account for discrepancies between outcomes generally known as emergent strategy and the intended strategy

Strategic planning is paramount in strategic management, setting out performance targets which organizations use to benchmark progress of strategy implementation and whether the organization is on course of the intended strategy or given environment and how these can be addressed to sustain the strategy implementation. The key element of strategy is to achieve competitive advantage, a good strategy should be capable of obtaining the desired objective; a good fit between the external environment, including government policies and an organizations resources and core competencies. It must be feasible and appropriate capable of providing the organization with a sustainable competitive advantage (Schendel & Hoffer, 1999).

A study by Michael (2005) found out that strategic planning is a very important business activity. It is also important in the public sector areas such as education. It is practiced widely informally and formally. Strategic planning and decision processes should end with objectives and a roadmap of ways to achieve those objectives. One of the core goals when drafting a strategic plan is to develop it in a way that is easily translatable into action plans. Most strategic plans address high level initiatives and over-arching goals, but don't get articulated (translated) into day-to-day projects and tasks that will be required to achieve the plan. Terminology or word choice, as well as the level a plan is written, are both examples of easy ways to fail at translating your strategic plan in a way that makes sense and is executable to others.

A study by Adner (2003) revealed that action planning and budgeting are among the oldest management tools and yet they remain effective for ensuring that implementation occurs and that tactics align with strategy. Effective implementation requires continual monitoring of progress in implementing the plan, of the competitive environment, of customers' satisfaction, and of the financial returns generated by the strategy. And, monitoring is meaningless if it is not accompanied by accountability and change when change is warranted (Adner, 2003). The Institute of Management Accounting recently surveyed its members to determine how well performance measures advance strategy and execution (www.imanet.org, 2010). Over half of the respondents believe their performance measures are "poor or less than adequate in communicating strategy to employees". Only companies using a Balanced Scorecard approach rated their systems effective in supporting and communicating strategy (www.imanet.org, 2010).

Jim Ditter of Norlight Telecommunications (2004) underscored the importance of holding individuals and teams accountable for implementation. "We do ratings on implementation progress (1-9 system) and also explore what is working and what is not working on a continuing basis. It helps to keep implementation on track and enables us to adjust quickly to challenges and obstacles". Jim (2010) of Bush Brothers added that if enough people are engaged in implementation and managers are not monitoring and discussing it all the time, people are embarrassed not to be engaged in implementation". Finally, aligning information technology with strategy is a critical process. This includes applications of information technology as varied as enterprise systems, customer relationship management, Web-based technologies, and manufacturing technologies. Aligning information technology is a double-edged sword that companies often cannot execute strategies in the new millennium without technology and they should not implement new technology without a strategy behind it (Afuah, 2002).

CONCEPTUAL FRAMEWORK

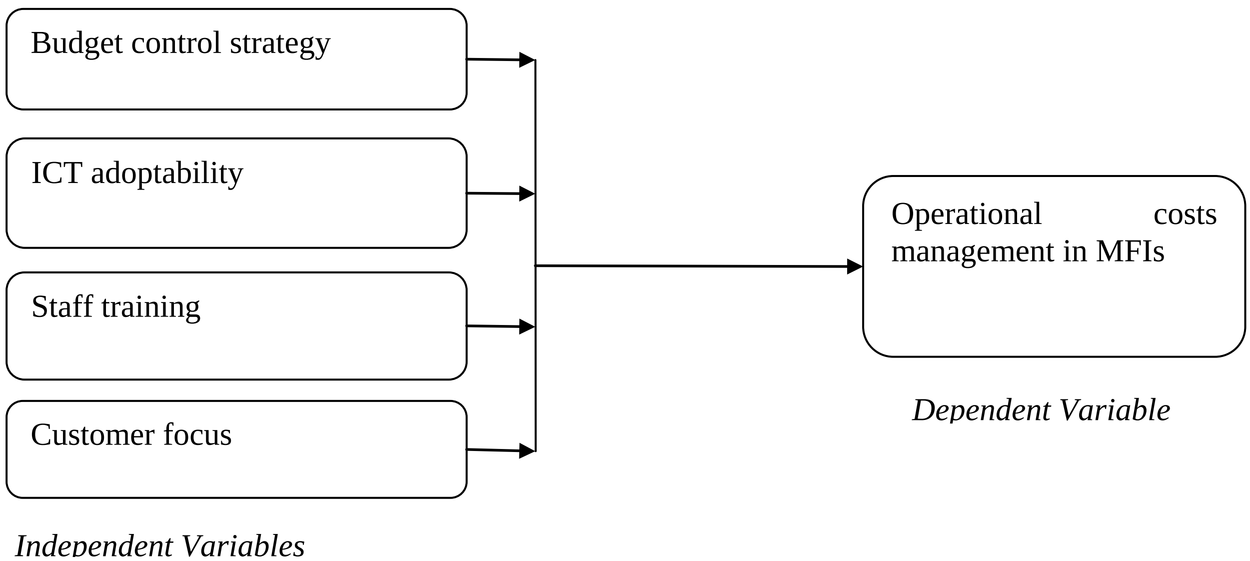

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Descriptive research design was used in the study to investigate the effects of strategic responses to Operational costs. Descriptive research is a scientific method of investigation in which data is collected and analyzed in order to describe current conditions, terms or relationships concerning a problem. A descriptive research is most applicable since it includes surveys and fact findings inquiries of different kinds, as seeks to establish factors associated with certain occurrences, outcomes conditions and or types of behavior. The stratified random sampling procedure will be used as it ensures all the groups in the target population are selected and represented with equal chance while they remain representative of the population and that no group is overloaded, or locked out as there will be no bias. It also enables the generalization of larger population with a margin of error that is statistically determinable, (Mugenda and Mugenda 2003). The sample size was 25% of the target population. The sample size was as follows

A semi structured questionnaire was used as the tool of collecting data. The reason why a questionnaire was selected is because it takes less time to administer, it confines the respondents to specific areas of interest to the study and the data collected is easy to analyze. Descriptive data analysis technique was used. To help process the data, the researcher used SPSS application. This program is able to process both qualitative and quantitative data and is therefore suitable for this study. Presentation was by tables, graphs and pie charts followed by a short narration.

RESEARCH RESULTS

Table 1: Reliability Test of Constructs

Variable	Crobanch alpha	No. of items	Comments
Budget control	0.852	4	Accepted
Information and Communication Technology	0.780	3	Accepted
Customer Focus Strategy	0.628	3	Accepted
Staff training	0.956	3	Accepted

The findings indicated that budget control had a coefficient of 0.852, Information and communication technology had a coefficient of 0.780, Customer Focus Strategy had a coefficient of 0.628 and staff training had an alpha value of 0.956. All constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.7 thus the study was reliable (Nunnally & Bernstein, 1994). This illustrates that all the strategies were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Nunnally, 1978). These findings correlate with Mugenda & Mugenda (2003) argument that coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability. On the basis of reliability test it was supposed that the scales used in this study is reliable to capture the constructs. Therefore, it was concluded that response and common method variance biases did not pose any significant problems to the validity of the results.

Department of the Respondents

Strategies adopted by institutions affect various aspects of operational costs and hence performance of the microfinance institutions across various departments. It was therefore important to ensure that questionnaires were distributed and returned from various departments within the Microfinance Bank. This was to ensure that the all areas influenced by strategies adopted by microfinance institutions in managing the operational costs are captured in the study. The results are as depicted in table 1.

From the results, 42.9% of the respondents were working in the operations department, 19.0% of them were working in the human resource department, another 19.0% worked in finance department and 14.3% worked in the procurement department, while 4.8% worked in other departments like marketing and IT. This implies that all departments that were targeted by the study were involved and that the findings are not biased hence representative of the various departments' views on strategies adopted by microfinance institutions in managing the operational costs.

Budget Control

In an attempt to find out if budget control is a strategy adopted by Microfinance institutions in managing their operational costs, the respondents were required to indicate whether they are aware of the concept of budget control. According to the responses shown by Table 4.8, 88.2% of the respondents unanimously reiterated that they are aware of the concept of budget control as compared to 11.8% of those who indicated that they were unaware of the concept of budget control. These results imply that majority of the staffs working at the Microfinance are quite aware of the aspects of the budget control which is a connotation that this strategy could easily be applied in the microfinance to influence the operational costs.

The study also sought to establish the extent to which budget control strategy has been adopted by Rafiki DTM in managing its operational costs. From the results, 56.9% of the respondents indicated that budget control strategy has been adopted by Rafiki DTM in managing its operational costs to a moderate extent, 29.4% of the respondents indicated that budget control strategy has been adopted by Rafiki DTM in managing its operational costs to a great extent, 8.8% of them indicated to a little extent, while 4.9% of the respondents indicated that budget control strategy has been adopted by Rafiki DTM in managing its operational costs to a very great extent. This budgeting is concerned primarily with the planning and controlling functions of management and this is especially so in authoritative budgeting which is a top-down approach to budgeting whereby upper-level management determines the budget (Albercht, Stice, & Swain, 2010).

On whether budget control has assisted on managing operational cost at Rafiki Microfinance, all the respondents collectively indicated that indeed budget control has been a fundamental tool that has assisted in management of operational cost at Rafiki DTM. They thus elucidated that budget control leads to accountability and efficiency of service delivery through the aspects of planning, co-ordination and control which facilitate corrective action revealed by measuring actual performances and comparing it to planned performance. In addition, they indicated that budget control has assisted on managing operational cost at Rafiki Microfinance by improving business cost-efficiency by reducing costs, restricting the rate of growth of operating costs as well as monitoring, evaluating, and enhancing the efficiency of specific areas, such as departments, divisions, or product lines, within their operations.

Further, the respondents were required to rate the extent to which various factors contribute to challenges of budget control within the institution that affect the management of operational costs. A scale of 1 to 5 was provided where 1 is to no extent and 5 is to a very great extent. From the study results, majority of the respondents reiterated that budget constraints affects the management of operational costs in Rafiki DTM to a great extent as shown by a mean of 3.7083 as well as legal frameworks shown by a mean of 3.6346, competition shown by a mean of 3.5962 and budget funding shown by a mean of 3.5192, while change of office holders affects the management of operational costs in Rafiki DTM to a moderate extent as shown by a mean of 2.8846. From the review of the previous studies, one of the key benefits of budget control is to provide definite objectives for evaluating performance at each level of responsibility and to provide a base against which actual performance can be measured according to Weygandt et al., (2009). As such, when done properly, budgeting can serve as a planning and controlling system hence eliminating budgeting control challenges in the microfinance institutions.

The respondents were also required to indicate whether they thought Rafiki Microfinance management should embrace budget control in reducing the operational cost. Again, all the respondents (shown by 100%) opined that Rafiki Microfinance management should embrace budget control in reducing the operational cost. As such they explained that budget control sets standards to indicate the level of activity expected from each responsible person or decision unit and the amount of resources that a responsible party should use in achieving that level of activity. In addition, they indicated that budget control consists of actions necessary to assure that the entity's resources and operations are focused on attaining established objectives, goals and plans. The budgeting system as noted by Amendariz and Morduch (2010) must fit the microfinance's operational control needs which typically involves some discretionary fixed expenses that can be cut back quickly if business conditions or performance is worse than planned. This implies that budget control helps the Microfinance organize and coordinate production, selling, distribution, service and administrative functions and take maximum advantage of available opportunities in managing operational costs.

Information and Communication Technology

The second objective of the study was to establish if entrenchment of ICT in the Microfinance operations is a factor in managing operational costs. In this regard, the respondents were required to indicate the extent to which Rafiki DTM considers ICT as a tool for managing its operational costs.

From the study, 60% of the respondents indicated that Rafiki DTM considers ICT as a tool for managing its operational costs to a great extent, 21% of the respondents indicated that Rafiki DTM considers ICT as a tool for managing its operational costs to a little extent, while 19% of the respondents indicated that Rafiki DTM considers ICT as a tool for managing its operational costs to a moderate extent. This implies that there is a great level of application of technological platforms aimed at managing operating costs in the MFI. According to Zhao (2005) Information and Communication Technology (ICT) drives businesses in a fast-paced world, where competitiveness and customer satisfaction is measured by efficiencies, convenience, delivery speeds and cost-effectiveness.

The study further required the respondents to indicate how they would rate ICT entrancement in the Organization. From the results, 58.3% of the respondents rated the ICT entrancement in the Organization as being very effective, 27.6% of them indicated that ICT entrancement in the Microfinance as being average, while 14.1% of the respondents rated the ICT entrancement in Rafiki Microfinance to be effective. These results illustrate that there is a very effective ICT framework in managing microfinance operational costs. According to Turban (2002) automation of transactions reduces human error, enhances the integrity of the data, brings in transparency to the Microfinance and facilitates standardization of processes.

The study was interested to establish the extent to which the Firm makes use of various information technologies in its operations. As such a scale of 1 to 5 was provided where 1 is to no extent and 5 is to a very great extent. According to the results, majority of the respondents indicated that mobile banking technologies are used in the MFI's operations to a great extent as shown by a mean score of 3.6667, ATM deposits and withdrawals is used to a great extent as shown by a mean score of 3.5976, as well as electronic money transfer shown by a mean score of 3.5845, while Internet banking transactions are used in the MFI's operations to a moderate extent as shown by a mean score of 3.3714 and online account opening is used in Rafiki's operations to a moderate extent as shown by a mean score of 3.0000. Okoth (2008) adds that computerization can help in cutting costs, by providing cheaper and faster ways of delivering services to members. It will also help the member to choose the time, place and method by which he wants to use the services and gives effect to multi-channel delivery of service by the Microfinance. The MFI can accelerate their growth with the use of technology by use of mobile-based devices, electronic money transfer, internet banking transactions, ATM deposits and withdrawals and online account opening.

The study further sought to establish the extent to which the respondents agreed with various statements concerning the use of ICT in managing operational cost in the Microfinance. A scale of 1 to 5 was provided where 1- Not at all, 2- Small extent, 3- Moderate extent, 4- Great extent, 5- Very great extent. According to the results, majority of the respondents indicated that ICT has enabled faster response time to customer demands/ complains to a great extent as shown by a mean score of 4.0857, the ICT advancement has led to a decrease in operating costs to a great extent as shown by a mean score of 3.9231, ICT has led to an increased productivity to a great extent as shown by a mean score of 3.6250 and ICT has made the organization achieve timely delivery of services to clients to a great extent as shown by a mean score of 3.5423. In addition, the respondents recapped that the organization has as a result achieved use of modern technology in offering its services, they consider the systems as user friendly and efficient in capturing clients data, it has led to a reduction in lead time, social responsibility (companies level of fulfilling social responsibilities) and the practice has enabled the organization concentrate on its core business and therefore achieve improved customer satisfaction to moderate extents as shown by mean scores of 3.3077, 3.3077, 3.2972, 3.2083 and 3.1538 respectively. This concurs to findings by Alfredo and Raed (2004) that operation costs can only be sustainably achieved when the ICT are used in order to lever distinctive capacities of the Microfinance in a way which is difficult for the competitors to replicate.

Staff Training

The third objective of the study was to find out if staff training can lead to reduction of operating costs in Microfinance institution. In this regard, the researcher sought to establish whether staff training in the Organization has assisted in reducing the operational cost. Table 9 shows the results of the study. From the study, majority of the respondents indicated that staff training in the Organization has assisted in reducing the operational cost as shown by 69.2% of them, while a few of them indicated that staff training in the Organization has not assisted in reducing the operational cost as shown by 30.8%. The respondents clarified that staff training in the Microfinance increases competitiveness, enhances innovativeness, increases flexibility, improves processes and procedures which contributes to improved operations, cost reductions and hence business performance.

The respondents were further required to indicate the extent to which staff training affects management of operation costs in Rafiki MFI. According to the results, majority (46.2%) of the respondents indicated that staff training affects management of operation costs in Rafiki DTM to a great extent, 21.2% of them indicated that staff training affects management of operation costs in Rafiki MFI to a very great extent, 19.2% of the respondents indicated to a little extent, while 13.4% of them rated the effect of staff training on management of operation costs in Rafiki MFI to be moderate extent. These results indicate that in general there is a great effect of staff training on management of operation costs in Rafiki MFI.

The study also sought to ascertain the extent to which various aspects of staff training affect the management of operational costs in the MFI. According to the results, majority of the respondents recapped that staff training leads to job and output quality which affects the management of operational costs in Rafiki DTM to a great extent as shown by a mean score of 3.9745, staff competency affects the management of operational costs in Rafiki DTM to a great extent as shown by a mean score of 3.6828 and staff productivity affects the management of operational costs in Rafiki DTM to a great extent as shown by a mean score of 3.5428, while employee efficiency/ effectiveness affects the management of operational costs in Rafiki DTM to a moderate extent as shown by a mean score of 3.3714. Keeny (2004) found that training enables staff to work smarter, productivity and efficiencies increase. Leading microfinance institutions know the importance of employee training and that orientation is a great opportunity to introduce employees to the Microfinance, its products, its culture and policies.

The study also sought to ascertain the respondents' level of agreement with various statements provided concerning staff training in managing operational cost in the Microfinance Bank. Majority of the respondents agreed that training helps managers review current working practices, systems and processes to ensure that employees perform effectively to a great extent as shown by a mean score of 3.9549, staff training adds value to both the employees and the organization to a great extent as shown by a mean score of 3.6875, training ensures a ready pool of highly required labour within the organization which results in reduced labour turn over costs to a great extent as shown by a mean score of 3.5625 and staff training can help in reducing the operational cost in the organization to a great extent as shown by a mean score of 3.5208, while they remained neutral on that the job as being monotonous and boring to a moderate extent as shown by a mean score of 2.7500. Keeny (2004) observed that training is an attractive benefit for microfinance institutions which can help improve skills and abilities, improve productivity and efficiency, and give employees an opportunity to advance in the workplace.

Customer Focus Strategy

Focus is another a strategy adopted in managing operational cost in microfinance institutions. The study thus sought to establish the extent to which Customer Focus Strategy has been adopted by Rafiki DTM in managing its operational costs. From the study, 57% of the respondents indicated that Customer Focus Strategy has been adopted by Rafiki DTM in managing its operational costs to a moderate extent, 29% of the respondents indicated to a great extent, 8.8% of the respondents indicated that Customer Focus Strategy has been adopted by Rafiki DTM in managing its operational costs to a little extent, while 5% of them indicated to a very great extent. The results imply that in general there is a moderate adoption of Customer Focus Strategy by Rafiki DTM in managing its operational costs. Customer Focus Strategy is built around serving a particular target very well and once the segment is identified, then the firm may pursue either cost or differentiation strategies.

The study also sought to establish the extent to which various aspects of Customer Focus Strategy affect the management of operations costs in Rafiki DTM. A scale of 1 to 5 was provided where 1= no extent, 2= little extent, 3= moderate extent, 4= large extent and 5 is to a very large extent. According to the results, majority of the respondents reiterated that special product attributes affects the management of operations costs in Rafiki DTM to a great extent as shown by a mean score of 4.3269, low cost innovative services affects the management of operations costs in Rafiki DTM to a great extent as shown by a mean score of 3.7222 and customers' special needs affects the management of operations costs in Rafiki DTM to a great extent as shown by a mean score of 3.5528, while geographical uniqueness affects the management of operations costs in Rafiki DTM to a moderate extent as shown by a mean score of 3.0962. According to Lynch (2003) the need to continuously improve the services and offer low cost innovative services is a great challenge to the financial institutions given the dynamic nature of the business environmental factors and competition in the industry. Customer Focus Strategy and other strategies is attractive where the segment has good growth potential and the focusing firm has the capabilities and resources to serve the targeted niche effectively.

MULTIPLE REGRESSION ANALYSIS

The researcher further conducted a multiple regression analysis so as to analyze the strategies adopted by Rafiki Microfinance Ltd in managing operational costs. Multiple regression is a statistical technique that allows us to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Table 2: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757(a)	.574	.533	.91241

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (managing operational costs) that is explained by all the four independent variables (budget control, information and communication technology, Customer Focus Strategy, staff training).

From the findings 57.4% of the operational costs management in the microfinance institutions in Kenya is attributed to combination of the four independent factors (budget control, information and communication technology, Customer Focus Strategy, staff training) investigated in this study. A further 42.6% of the operational cost management is attributed to other factors not investigated in this study.

Table 3: Multiple Regression Analysis

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	0.713	1.068		0.799	0.033
	Budget control	0.246	0.203	0.135	0.619	0.036
	Information and communication technology	0.359	0.193	0.08	0.358	0.014
	Staff training	0.268	0.250	0.242	0.891	0.023
	Customer Focus Strategy	0.215	0.16	0.346	1.284	0.044

Dependent Variable: operational costs management in the microfinance institutions in Kenya.

The researcher conducted a multiple regression analysis so as to determine the relationship between the operational costs management in the microfinance institutions in Kenya and the four attributes investigated in this study. The regression equation ($Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \alpha$) was:

$Y = 0.713 + 0.246X_1 + 0.359X_2 + 0.268X_3 + 0.215\beta_4 X_4 + 0$

Whereby Y = Operational costs management in the microfinance institutions in Kenya

X_1 = Budget control

X_2 = Information and communication technology

X_3 = Staff training

X_4 = Customer Focus Strategy

According to the regression equation established, taking all factors (budget control, information and communication technology, staff training and Customer Focus Strategy) constant at zero, the operational costs management in the microfinance institutions in Kenya as a result of these independent factors will be 0.713. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in budget control will lead to a 0.246 increase in operational costs management in the microfinance institutions in Kenya. A unit increase in information and communication technology will lead to a 0.359 increase in operational costs management in the microfinance institutions in Kenya; a unit increase in staff training will lead to a 0.268 increase in operational costs management in the microfinance institutions in Kenya while a unit increase in Customer Focus Strategy will lead to a 0.168 increase in operational costs management in the microfinance institutions in Kenya. This therefore implies that all the four variables have a positive relationship with information and communication technology contributing more to the operational costs management in the microfinance institutions in Kenya, while Customer Focus Strategy contributes the least to the operational costs management in the microfinance institutions in Kenya.

SUMMARY OF FINDINGS

Budget Control

The study found that that the staffs of Rafiki Microfinance are aware of the concept of budget control and budget control has been a fundamental tool that has assisted in management of operational cost at Rafiki DTM. The study also established that budget control leads to accountability and efficiency of service delivery through the aspects of planning, co-ordination and control which facilitate corrective action revealed by measuring actual performances and comparing it to planned performance. From the results, Rafiki Microfinance management should embrace Budget control in reducing the operational cost, budget control sets standards to indicate the level of activity expected from each responsible person or decision unit and the amount of resources that a responsible party should use in achieving that level of activity and budget control consists of actions necessary to assure that the entity's resources and operations are focused on attaining established objectives, goals and plans. The results coincide with the findings by Aghion (2005) that controlling involves monitoring the implementation of cost cutting measures and taking corrective action as needed. The control process is continuous because it is impossible to predict the timing and impact of external environmental factors or the effects of planned actions. Control is based on the use of feedback about the activity being controlled. Morduch (2006) adds that all control systems must have some kind of feedback mechanism. Microfinance managers directly observe what is happening and they rely on verbal and written reports, which they receive on demand regarding the budget controls that can influence the operations of the institutions.

Information and Communication Technology

The study also found that entrenchment of ICT in the Microfinance operations is a factor in managing operational costs since the ICT entrancement in the Organization was found to be very effective. The study also uncovered that ICT has enabled faster response time to customer demands/ complains, the ICT advancement has led to a decrease in operating costs, ICT has led to an increased productivity and ICT has made the organization achieve timely delivery of services to clients to great extents while the organization has as a result achieved use of modern technology in offering its services, they consider the systems as user friendly and efficient in capturing clients data, it has led to a reduction in lead time, social responsibility (companies level of fulfilling social responsibilities) and the practice has enabled the organization concentrate on its core business and therefore achieve improved customer satisfaction to moderate extents. These findings are in line with the previous findings by Zhao (2005) who found that ICT enables businesses to find new ways to drive down the costs of products and processes, in addition to improving performance. As a consequence, more and more microfinance institutions try to use electronic means in conducting their operations primarily to remain relevant in this global world. According to Turban (2002) taking advantages of the booming market for mobile phones and cellular services, several microfinance institutions are considering introducing mobile banking and other technological platforms which will allow members to perform banking transactions more conveniently and cost effectively.

Staff Training

The study further found that staff training in the Organization has assisted in reducing the operational cost. From the results, staff training helps managers review current working practices , systems and processes to ensure that employees perform effectively, staff training adds value to both the employees and the organization, training ensures a ready pool of highly required labour within the organization which results in reduced labour turn over costs and staff training can help in reducing the operational cost in the organization to great extents which is an indication that its significant in managing of operational costs in Rafiki Microfinance. These findings are in line with MacNamara, 2001) who stated that training is essential not only to increase productivity but also to motivate and inspire workers by letting them know how important their jobs are and giving them all the information they need to perform those jobs. The key benefits of employee training include that employees are able to learn new skills or improve their existing skills in an area of business, improved skills directly translate into reduced costs, improved productivity and increased efficiency for the microfinance institutions. They also improve morale and may even motivate employees to become more efficient and productive.

Customer Focus Strategy

On Customer Focus Strategy, the study finally found that Customer focus strategy has been very effective in managing operational cost in the Microfinance Institution. The strategy in place support and demonstrate efficient reduction of the operational cost in Rafiki Microfinance Bank. Customer Focus Strategy is based on low costs and involves concentrating on a narrow buyer segment and outcompeting rivals by having lower cost than rivals and thus being able to serve niche numbers at a lower price. Lynch (2003) proposed that it is important for the financial institutions to invest in the competitive strategies, by emphasizing on the Customer Focus Strategy and other strategies as a response to the competitive environment despite the fact that it is challenging, costly and it will first erode the profits of the financial institutions. Here the organization focuses its efforts and resources on one particular segment and becomes well known for providing products\services on one particular segment. They form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiation within that particular segment hence greatly reducing the operational cost of the organization.

CONCLUSIONS

From the foregoing findings, the study concludes that the staffs working at the Microfinance are quite aware of the aspects of budget control which is a connotation that this strategy could easily be applied in the microfinance to influence the operational costs. The study ascertained that budget control has assisted on managing operational cost at Rafiki Microfinance by improving business cost-efficiency by reducing costs, restricting the rate of growth of operating costs as well as monitoring, evaluating, and enhancing the efficiency of specific areas, such as departments, divisions, or product lines, within their operations. The findings of the study further imply that budget control helps the Microfinance organize and coordinate production, selling, distribution, service and administrative functions and take maximum advantage of available opportunities in managing operational costs.

The study also deduces that there is a very effective ICT framework in managing microfinance operational costs. The results further imply that ICT has enabled faster response time to customer demands/ complains, the ICT advancement has led to a decrease in operating costs, ICT has led to an increased productivity, ICT has made the organization achieve timely delivery of services to clients, the organization has as a result achieved use of modern technology in offering its services, they consider the systems as user friendly and efficient in capturing clients data, it has led to a reduction in lead time, social responsibility (companies level of fulfilling social responsibilities) and the practice has enabled the organization concentrate on its core business and therefore achieve improved customer satisfaction.

The study further concludes that staff training in the Microfinance increases competitiveness, enhances innovativeness, increases flexibility, improves processes and procedures which contributes to improved operations, cost reductions and hence business performance. The study also deduces that staff training helps managers review current working practices, systems and processes to ensure that employees perform effectively, staff training adds value to both the employees and the organization, training ensures a ready pool of highly required labour within the organization which results in reduced labour turn over costs and staff training can help in reducing the operational cost in the organization.

The study concludes that focus is another a strategy adopted in managing operational cost in microfinance institutions. In this regard the Customer focus strategy in place support and demonstrate efficient reduction of the operational cost in Rafiki Microfinance Bank. To assist in reducing its operational cost, The Microfinance needs to put its efforts and resources on one particular segment and becomes well known for providing products\services on one particular segment. They form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiation within that particular segment hence greatly reducing the operational cost of the organization.

RECOMMENDATIONS

The MFI should reconsider investing in advanced IT infrastructure to enhance effective ICT framework in managing microfinance operational costs enabled faster response time to customer demands/ complains, decrease in operating costs, increased productivity and achieve timely delivery of services to clients. This would go hand in hand with information technology skills to influence operations through IT platforms as well as increasing speed of service provision which is a factor that can influence the operational cost management in the MFIs. Embracing of ICT would also ensure that the MFI balances its need to satisfy customer needs and also to manage costs so as to attain profits. This will help to reduce lead times and increase efficiency and lead to benefits and elimination of delays and inefficiencies, reliability of the service.

There is need to relook at the organizational policy in place support to enhance the management of operational costs. This will help the Microfinance Bank to adapt to changes and developments in sectors like mobile banking. Through this strategy the Microfinance can divest high operation costs and focus on the profitable ones to enhance operation costs management. In addition, the Microfinance needs to adopt a number of strategies to manage costs which include restructuring, business process reengineering, consolidation of business functions, rationalization of staff fringe benefits, marketing reduction, outsourcing, customer re-organization and technological upgrade.

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