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IMPACT OF STRATEGIC PLANNING ON ORGANISATIONAL PERFORMANCE OF MICROFINANCE INSTITUTION IN MYANMAR

Nan Su La Pyi Wun

Lincoln University College, Malaysia

Corresponding Author's Email and Mobile: nansulapyiwun@gmail.com

ABSTRACT

The study is focused on the impact of strategic planning on organizational performance of Microfinance in Myanmar. Strategic planning plays as a vital role in organizational performance. In the long run, strategic planning has impact on the survival of organization. Microfinance has grown over the years since Microfinance sector has ability to improve the livelihood of the small holder. Microfinance institutions support the small holders through provision of loan facilities at low interest rates. Although microfinance sector is growth, most Microfinance Institutions (MFIs) still find challenges in dealing with the needs of increased customer in a dynamic financial environment that require establishment of viable strategies. Strategic planning is important to compete the market for survival of organization in the dynamic economic environment. The main limitation facing MFIs has been performance in terms of management, operations and strategic issues. The heavy barrier in implementing strategic planning is the lack of commitment as it distracts the successful implementation of strategic planning. There are many impacts of strategic planning on organizational performance such as high-quality products, significant changes in profitability level, large customer patronage and increases in sales volume.

Strategic planning intensity is determined by managerial, organizational and environmental factors. The objective of this study is to investigate the impact of strategic Planning on organizational performance of microfinance institution (MFI) in Myanmar. This paper provides information which will assist managers to understand the importance of strategic planning process in realization of organizational goals.

Keywords: Strategic Planning, Organization, Strategy, Competitive Advantage

INTRODUCTION

Organizational performance is about creating values for the primary beneficiaries of the organization. Efficient and effective strategic planning can increase profitability of Organization in terms of more sales and profit growth. Practicing the strategic planning in any business will show better performance compared with non-planning system.

The development of a promising microfinance industry since Myanmar's microfinance law is issued in November 2011. Paul Luchtenburg, IFC's Microfinance Program Manager in East Asia Pacific, report that it is important to build a commercially sustainable microfinance network so that there is an opportunity to support existing institutions and bring in new organizations that improves access to finance for small and medium entrepreneurs and rural clients.

The strategic planning of Microfinance is towards valuing and prioritizing certain strategically significant actions rather than others. Microfinance emphasize strategic planning and activities that could drive down its costs, respond aggressively to competitors, pursue new customer, retain existing customer and seek to speed up the technological innovations. These above-mentioned factors and many others are the root causes to achieve favorable outcomes for Organizational Performance such as Organisational growth (McKelvie & Wiklund, 2010; Cressy, 2009). Based on this, researchers have considered Porter's (1980) considered that performance effects of strategic orientation construed, and generic strategies could be used to explain the choice of strategies; and to adopt for growth and sustainability thus generating competitive advantage.

Eric Duflos, CGAP's Regional Representative for East Asia Pacific, said that "With Myanmar's breathtaking speed of change, government authorities and regulators are faced with the challenge of quickly bringing policies and regulations in line with the growing economic activity in the country. The current microfinance law clearly signals government commitment to financial inclusion. We recommend that Myanmar's financial regulators and supervisors adopt international good practices for microfinance as quickly as possible."

There are around 180 MFIs operate in Myanmar which serve an estimated 1.45 million clients and have a total loan portfolio of approximately $200 million. The sector includes several prominent commercial Microfinance Institutions (MFIs) and International Non-Government Organizations (INGOs), approximately 75 financial cooperatives that have re-licensed as MFIs, several local NGOs that provide microfinance, and approximately 100 local commercial MFIs.

In 2014, the Myanmar Microfinance Supervision Enterprise (the FRD's predecessor) began organizing the Myanmar Microfinance Association (MMFA) in order to help formalize the sector and strengthen the voice of local MFIs. Although MMFA has not been formally registered, it has set up an office and its executive committee meets monthly and conducts training for the sector. Moreover, MMFA collects data from MFIs that want to join the association. There has been an informal "Microfinance Working Group" comprised primarily of international NGOs that have microfinance activities in Myanmar since 2005.

In Myanmar, the rapid expansion of the microfinance network poses financial risks to the overall financial system. The government needs to immediately place a temporary moratorium on new licenses for microfinance institutions and need to review carefully on the current institutional arrangements for licensing and supervision as well as the developments in the microfinance sector. To ensure a sustainable and vibrant microfinance system, the Central Bank of Myanmar needs to recalibrate its strategy for microfinance institutions. The main supervisory authority for non-bank financial institutions and microfinance institutions is the Ministry of Finance.

Key Characteristics of Microfinance

The following features are the traditional features of microfinance:

(1) Small transactions and minimum balances (whether loans, savings, insurance)

(2) Loans for entrepreneurial activity

(3) Collateral-free loans

(4) Group lending

(5) Focus on poor clients

(6) Focus on female clients

(7) Simple application processes

(8) Provision of services in underserved communities

(9) Market-level interest rates.

Statement of the Problem

Microfinance institutions have been regarded as partners in supporting Small and Medium Enterprises. In developing economies, it serves to reducing the level of poverty as well. Some have been rendered bankrupt as the sector continues to register the influx of new microfinance institutions which raises questions about strategic planning activities among microfinance institutions in the country.

To operate profitably is the main goal of every MFI so that they can maintain its stability, sustainability and improve growth. In Myanmar, the microfinance sector encounters several constraints that are needed to resolve in order to improve outreach, sustainability and growth. The performance of MFIs become poor and demise eventually when these constraints have contributed to a large extent. If MFIs are not profitable, growth remains a dream and unsustainable. Profitability and sustainability of Microfinance sector can highly impact positively on economic growth and development. Many problems have not been solved although some progresses have been made.

Microfinance Institutions need comprehensive, systematic and dynamic strategic planning to survive competition in the ever-changing global competitive business environment. Organizations need strategic planning and monitoring the activities in order to focus resources and efforts to ensure their future survival. Organization achieve positive results by good strategy and timely implementation.

Objectives

The objectives of the study are:

1. To analyze on strategic planning in Microfinance Institution.
2. To identify the main factors that influence strategic planning practices in Microfinance Institution.
3. To observe how such practices, impact the organizational performance in Microfinance Institution.

LITERATURE REVIEW

Microfinance Institutions (MFIs)

Microfinance Institutions (MFIs) are the organizations that provide financial services to low-income operation. MFIs offer micro-credit and only small amount of savings are taken back from their borrowers; not from the general public. In microfinance industry, microfinance refers to a wide range of organizations dedicated to providing financial services.

Microfinance provides financial and non-financial services to low-income people who need to access money for developing an income generation activity or for starting a small business. Microfinance supports the poor client small amount of money as an individual loan. Moreover, Microfinance provides the fund to the micro-entrepreneurs as an SME loan.

Myanmar is greatly in need of the benefits promised by microfinance. In collaboration with the United Nations Office for Project Services (UNOPs), the United Nations Development Program (UNDP) has operated important microfinance schemes in Myanmar since 1997. These schemes have been organized under the UNDP's Human Development Initiative (HDI). The HDI has been established to implement basic development and assistance programs to the poor people particularly grass roots level.

Since Microfinance Law is enacted in November 2011, the number Microfinance Institutions dramatically increased due to the greater security and enabling private operators into the sector. According to data from the Financial Regulatory Department in the Ministry of Finance and Planning, there were 126 MFIs servicing 574,085 clients in 2012-13. Three years later in Myanmar, this had risen to 167 MFIs which serve an estimated 1.9 million clients and have a total loan portfolio of approximately $200 million.

According to Thornton, the microfinance phenomenon significantly expanded a few years ago. Microfinance plays role in many domains towards the improvement of living standards of the poor, by facilitating access to financial services and job creation until the procurement of investors. Today, objectives of microfinance institutions are to reduce the poverty by addressing the multiple dimension of poverty with the aim of reaching specific Goals in education, women's empowerment, and health and so on.

Most Microfinance Institutions (MFIs) still find challenges in dealing with the needs of increased customer in a dynamic financial environment that require establishment of viable strategies. Strategic planning is important to compete the market for survival of organization in the dynamic economic environment.

The Survival-Based theory

In order to survive, organizations must deploy strategies that should be focused on running very efficient operations and can respond rapidly to the changing of competitive environment since the one that survive is the one that is the fittest and most able to adapt to the environment. As per Herbert Spencer in the late 19^{th} and early 20^{th} century, a company should strive to run efficiently in order to better adapt to the environment, improving its profitability and to achieve the goal of surviving the competitive market in which it operates (Hummel & Hummel, 2009).

The Profit Maximization Theory of the Firm

According to Ansoff (1989), a firm seeks its objectives through the medium of profit and, more specifically, through conversion of its resources into goods and/or services and then obtaining a return on these by selling them to customers. In this respect, survival of the firm depends on profit; unless profits are generated and used for generation of future profit and replacement of resources, the firm will eventually run down.

The profit maximization theory no longer adopts short-termism and absolute in nature (pure form). The change of paradigm in the profit maximization theory of the firm was a result from decades of criticism spearheaded by the emergence of the Stakeholders Theory of the Firm, introduced initially by Freeman in 1984. Over the years, critics on this theory mainly came from the field of Organizational responsibility (Cragg, 2002; Lantos, 2001), but later also from other field such as strategic management (Goldenberg, 2000). However, despite its critics, this theory is still so much applicable today especially in big firms.

Strategy Formulation

Strategy Formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. Appropriate leadership style is essential to an organization's success because it helps come up with a framework for the actions that will lead to the anticipated results (Sheldrake, 2003). Strategic plans should be communicated to all employees so that they are aware of the Organization's objectives, goals and purpose. The strategic plans should also communicate the actions needed.

Strategic Planning

According to Kuye (2004), Strategic Planning provides the foundation for the policies, procedures and strategies for obtaining and using resources to achieve organizational goals. According to Byars & Rue (2000), it is a formal process of long-term goals that managers who attempted to employ staff without strategic planning will be constantly hiring and firing employees. Robbins & Coultor (1996), implicit that strategic planning consist of what is to be done and how it will be done. In long-term direction of organization, strategic planning can assist the leaders and managers to think, learn and act strategically as they are critical to executing daily activities and critical to motivating employees.

Strategic planning consists of a set of underlying processes that are intended to create or manipulate a situation to create a more favorable outcome for organization. Strategic Planning is quite different from tradition tactical planning since it is more defensive based and depends on the move of competition to drive the movement of an organization. In business, strategic planning provides overall direction for specific units such as human resources, projects, financial focuses and marketing.

Strategic planning process begins with the development of a vision that guides the formulation of organizational strategies (Haden, 2010). Effective strategic planning provides a framework for decision making on resource allocation, addressing organizational problems and achieving competitiveness by taking advantage of opportunities. According to Kenny (2013), strategic plans refer to the alternative actions that can be implemented in an organization to achieve the organization vision.

Strategic planning focuses on defining the organizational direction, setting priorities, identifying the obstacles to organizational success and opportunities that can increase organizational competitiveness and performance. The planning process in organizations enhances sustainability through competitive strategies and requires utilization of information within the organization and externally. According to Morphy (2015), employees and management are important stakeholders in an organization.

Performance Measurement

According to Daniels & Daniels (2004), financial institutions need activities that ensure that goals are consistently being met in an effective and efficient manner. Armstrong and Baron (1998), indicated that as the effectiveness of companies will improve the performance of the people who work in them and by developing the capabilities of teams and individual contributors by increasing the strategic and integrated approach.

According to Ledgerwood (1999), the performance of Microfinance Institution can be measured in many parameters such as repayment rates, arrears rate, delinquent borrowers, portfolio at risk, loan loss reserve ratio, and loan loss ratio.

Simons (1995) explicit that different management control systems will have different impacts on organization performance since high level Management set different management control system depend on different strata or on how companies apply the interactive use of management control systems like financial budget.

Impact on the MFI

In Microfinance institution, the data can be collected directly when evaluating the effect of new products or policy changes. Common outcomes of interest for MFIs include the following:

- Repayment rate
- Client retention rate
- New client enrollment
- Average loan size
- Savings balances
- Profitability
- Composition of clients (demographics).

RESEARCH METHODOLOGY

The research methodology for this study is basically primary data of questionnaire analysis. The study follows a descriptive approach. The choice of this research design is to help the researcher examine the effective of strategic planning on the performance of Microfinance Institution (MFI). Primary data is collected on strategic planning process, employee participation and expected performance.

Filed data collection, interviews and case study are done mostly in Yangon. The questionnaire is distributed to 60 staff but only 50 respondents returned their questionnaires. All questions used a five-point Likert scale with responses 1 indicating that an item received "no emphasis" and 5 indicating an item received "strong emphasis". Data collected is analyzed using Statistical Package for the Social Sciences (SPSS) software to produce frequencies, descriptive and to derive conclusions.

Hypothesis

Null Hypothesis: Strategic Planning does not impact on the performance of organization

Alternative Hypothesis: Strategic Planning impact on the performance of organization

RESULTS AND DISCUSSION

(A) As shown in Table 1, strategic planning is based on 80% of Key Benchmarks, 60% of Organizational Goals and 72% of Past Performance.

Use a scale of 1 to 5, where; 1= no extent; 2 = little extent; 3 = moderate extent; 4 = great extent and 5 = very great extent.

Table 1: Basic Factors of Strategic Planning

	1	2	3	4	5
Key Benchmarks	-	5 10%	5 10%	25 50%	15 30%
Goals of the organization	5 10%	5 10%	10 20%	20 40%	10 20%
Past performance of the business	-	6 12%	8 16%	24 48%	12 24%

(B) As shown in Table 2, Strategic Planning impacts on organizational performance on 90% of Business Excellence, 66% of Performance Management, 90% of Quality Management and 60% of Operations Management.

Use a scale of 1 to 5, where; 1= no extent; 2 = little extent; 3 = moderate extent; 4 = great extent and 5 = very great extent.

Table 2: Impacts of Strategic Planning on Organizational Performance

	1	2	3	4	5
Business excellence	-	5 10%	-	33 66%	12 24%
Performance management	5 10%	4 8%	8 16%	27 54%	6 12%
Quality management	-	-	5 10%	30 60%	15 30%
Improve corporate image	5 10%	6 12%	20 40%	13 26%	6 12%
Operations management	-	8 16%	12 24%	20 40%	10 20%

(C) As shown in Table 3, Strategic Planning impacts on customer satisfaction since 70% of respondents agree Sale Volumes and 80% agree Profitability due to strategic planning.

Use a scale of 1 to 5, where; 1= no extent; 2 = little extent; 3 = moderate extent; 4 = great extent and 5 = very great extent.

Table 3: Impacts of Strategic Planning on Customer Satisfaction

	1	2	3	4	5
Business turnover	-	10 20%	7 14%	20 40%	13 26%
Volumes of sale	3 6%	7 14%	5 10%	25 50%	10 20%
Profitability	-	6 12%	4 8%	32 64%	8 16%

(D) As shown in Table 4, 80% of respondents agree that strategic planning enhance to repeat purchase. 70% agree that strategic planning lead superior quality services and products. 80% of respondents agree that positive feedback from customers are received due to strategic planning.

Use a scale of 1 to 5, where; 1= no extent; 2 = little extent; 3 = moderate extent; 4 = great extent and 5 = very great extent.

Table 4: Impacts of Strategic Planning

	1	2	3	4	5
More customer-oriented products	10 20%	6 12%	29 58%	5 10%	-
Enhanced repeated purchase	3 6%	7 14%	-	30 60%	10 20%
Superior quality services and products	-	5 10%	10 20%	20 40%	15 30%
Positive feedback from customers	4 8%	6 12%	-	26 52%	14 28%

(E) As shown in table 5, 60% of respondents agree that strategic planning helps employee to meet their targets easily. Strategic Planning lead to reduce 80% of employee turnover, 54% employee satisfaction respectively.

Use a scale of 1 to 5, where; 1= strongly disagree; 2 = disagree; 3 = neutral; 4 = agree and 5 = strongly agree

Table 5: Impacts of Strategic Planning on Employee Performance

	1	2	3	4	5
Strategic planning has led to reduce employee turnover	4 8%	6 12%	-	30 60%	10 20%
Strategic planning has improved employees' pay	10 20%	8 16%	7 14%	20 40%	5 10%
With strategic planning, employee can now meet their targets easily	-	5 10%	15 30%	24 48%	6 12%
Strategic planning has led to employee satisfaction and hence better performance	-	7 14%	16 32%	23 46%	4 8%

(F) As shown in table 6, Strategic Planning impacts on organizational growth since 92% of respondents strongly agree strategic planning lead to new products and services development, 70% agree strategic planning lead to the growth of customer based and 80% agree strategic planning leads to unique products and services.

Use a scale of 1 to 5, where; 1= strongly disagree; 2 = disagree; 3 = neutral; 4 = agree and 5 = strongly agree.

Table 6: Impacts of Strategic Planning has led to the growth on the organization

	1	2	3	4	5
Number of employees	3 6%	7 14%	5 10%	25 50%	10 20%
Opening of new branches	-	-	10 20%	30 60%	10 20%
New products and services development	2 4%	2 4%	-	36 72%	10 20%
Growth in customer base	5 10%	10 20%	-	26 52%	9 18%
Unique products and services	-	3 6%	7 14%	32 64%	8 16%

The result of hypothesis states that there is a positive correlation between strategic planning and organizational performance. Strategic Planning impact on the performance of organization as strategic planning encourage stimulates cooperative, favorable attitude to change, integrated and enthusiastic approach to tackle problems and opportunities.

Moreover, strategic planning will encourage forward thinking and the integration of the behavior of individuals in the organization into a total effort. Prevos (2005) said that there will automatically be a positive influence on performance if an integrated approach to strategic planning is adopted. According to Mankins & Steele (2005), organization ordinarily only realize 63% of the potential value of their strategy due to the defects in planning and execution. Performance of organization will increase if full compliance is achieved.

According to Hill, Jones & Galvin (2004), strategic planning on the average has a positive impact on organizational performance. In Research Journal of Business Management, Akinyele and Fasogbon (2007) explicated that strategic planning enhances better organizational performance which in the long run has much impact on the survival of the organization.

The study of Nmadu, (2007) and Akingbade (2007) revealed that there is a positive impact of strategic planning on organizational performance in Nigeria. Their studies claimed that the financial performance of organization tends to increase with a unit increase in the level of practice of strategic management.

The above-mentioned hypothesis results also agreed with the conclusions of Robbins *et al.*, (2008) and Silverman (2000) where they stated that the organizational performance depends on strategic planning. The higher the overall level of strategic planning, the better performance of the organization will achieve.

CONCLUSION

Microfinance is an emerging important financial subsector and its role is to improve financial access of the poor and help them to build assets. It is a kind of contribution to poverty alleviation. Strategic planning process has an impact on the performance of their organizations and the managers of Microfinance Institution in Myanmar need to take cognizance of this important fact.

In Myanmar, Top Management of Microfinance Institution need to identify their specific strengths and create strategies that guide towards goal achievement and compliment organizational objectives. They also need to take note of the weaknesses that they face and formulate strategies that will assist to mitigate their influence on their performance. It is essential to review the strategic plans periodically to offer greater guidance on performance targets required.

Strategic planning process consists of the environmental scanning phase, strategy formulation phase, strategy implementation phase and strategy evaluation phase. Each phase has an impact on the overall performance of Microfinance Institution in Myanmar. Among them, strategic planning process includes identification of strengths and weaknesses, organizational procedures in place, availability of resources and appraisal techniques. So, strategic planning could be highlighted to ensure organization performance targets are met.

Organizational performance will improve due to the better operational procedures and achieve set targets more efficiently by working all the employees with more effective strategic planning. Therefore, it is very important for microfinance institution to take strategic planning as a very vital aspect of organizational development in order to enhance a better performance of the organization.

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