

An Empirical Survey on the Effect of Business Alignment on the Organizational Performance of Microfinance Banks in Kenya

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Abstract: Microfinance banks play a key role in complementing banks in the provision of financial services, especially to the population that is poor and lacks access to commercial banks. The performance of Microfinance banks has been on the decline in Kenya due to slow processing time, lack of new products, low number of customers and lack of staff retention. Microfinance banks offer financial services to a population that cannot get the same services from commercial banks due to the high costs. Microfinance banks in Kenya have been performing poorly in the last few years occasioned by the closure of some of the branches of the microfinance banks while some like Century microfinance banks have been acquired by other Fintech companies. These microfinance banks need to leverage and reconfigure all the resources they have to achieve and maintain sustainable competitiveness. This study sought to investigate the effect of business alignment on the performance of Microfinance banks in Kenya. This study adopted the positivist research philosophy and also adopted the cross-sectional descriptive and explanatory research design. The study employed stratified proportionate sampling and simple random sampling from the 14 registered Microfinance banks regulated by the Central Bank of Kenya. Primary data was collected through structured questionnaires. Quantitative data was analyzed using descriptive statistics using means and standard deviations while inferential statistics were done through multiple linear regression and analysis of variance while observing the significance levels of p value < 0.05 . Diagnostic tests on multicollinearity, normality and heteroscedasticity were carried out. Tables and narratives were used to present the results. The study found that business alignment significantly positively affected the performance of microfinance banks. The findings of this study add to the knowledge by developing a conceptual framework based on the strategic alignment model and also revealing the specific alignments that are key to improving the performance of microfinance banks in Kenya. Management of microfinance banks should work with their regulators to change their business model of loan awarding, and leverage technology to offer appraisal and disbursement of quick loans on the mobile.

Keywords: Microfinance banks, commercial banks, financial services.

1. INTRODUCTION

According to Munala (2017) microfinance banks are important in availing financial services to people with low financial income as it ensures they can put food on the table and open small businesses to support their families. Microfinance banks have adopted the use of technology to enable them to reach more clients with their products and services to cater to the growing demand for services from the population (Daowd et al., 2020). The inability to access financial services is a major contributor to poverty in developing countries despite major efforts being undertaken to eliminate poverty (Agbola et al.,

2017) Today this concept of microfinance has grown steadily to offer both financial and non-financial services to the poor in the community with it being used as a tool to eradicate poverty that is ballooning the world population. In Kenya, Microfinance banks have been undergoing many challenges such as a lack of aligning technology to their operations, poor coordination from regulators, a lack of strategic alliances with other partners such as banks, and a lack of technological capabilities (Alshebami & Rengarajan, 2017). They are faced with a decline in net advances, slow processing time, lack of new products, staff turnover and losses on net profits, unregulated competitors in their market share resulting in a reduced number of customers, business disruptions, digitalization, and high operational expenses and these have affected their performance.

The primary objective for the MFBs since their inception is the provision of financial services to the population that cannot access the same services from the banking formal sector. The task of reaching this population is much more expensive than reaching the population under the formal sector. The critical choices that the MFB's always make is whether to pursue and reach the poor or focus on making profits on financial resources (Hermes & Hudon, 2018). The link between business strategies and business infrastructure is referred to as business alignment (Gerow et al., 2014). Business alignment is concerned with how the activities undertaken by the firm respond to the market environment around and are supported by the administrative infrastructure, business processes, and human resource skills (Muñoz & Avila, 2019). The business alignment focuses on the internal policies and procedures of the business and how they are in line with the mission and goals of the business. The configuration of business strategies and IT strategies has been a research area for many researchers, pointing out that organizations need to align their business and IT strategies to remain competitive.

Microfinance banks play a key role in complementing banks in the provision of financial services, especially to the population which is poor and lacks access to commercial banks (Lam et al., 2020). The offering of credit services is very key to the development of different economic activities which in turn raise the living standards of Kenyans. Microfinance banks have also opened up opportunities for communities to establish profit-generating projects which are propelling the growth of their community (Beisland et al., 2020). The issuance of microloans by these banks to individuals or groups of individuals who otherwise would not have collateral and thus are unqualified to get loans from the banks makes microfinance banks stand out and bridge the gap (Daowd et al., 2020). Individuals can get small loans that they can pay comfortably at a low-interest rate as their ventures generate profit.

According to a report by Consultative Group to Assist the Poor (CGAP) 2018, MFBs have a challenge since are digital financial services providers like M-Pesa and other lending platforms that are offering the same services as the MFBs. Many companies like Kopokopo in Kenya, Konfio in Mexico, Ezetap in India, and Fundingcircle in the United Kingdom have steadily placed themselves as alternative quick sources of funds for individuals and small businesses. The rise of Fintechs in the country and globally has been a major area of competition in the finance sector with many borrowers rushing to get digital loans (Ofeh & Nguekeu Jeanne, 2017). The accessibility of loans through digital lenders comes at a higher cost whereby investors in these businesses try to maximize their profit hence they leave out the poor in the community. MFI may not perform as well as digital lenders do because their main aim is lending to the poor but they can remain relevant and sustain their performance through re-aligning their business and taking advantage of the technology that can make the operating expenses lower (Dorfleitner et al., 2017). The business environment requires organizations including MFBs to harness their resources and processes to gain a competitive advantage. There is therefore a need for microfinance banks to rethink their strategies within their regulatory framework and align them with their resources to improve their performance (Hafiz Bin Abdul Aziz, 2017).

Research Objective

The objective of this study was to investigate the effect of business alignment on the performance of microfinance banks in Kenya.

Research Hypothesis

From the research objective above, below is the null hypothesis:

Business alignment has no significant effect on the performance of microfinance banks in Kenya.

Theoretical Review

This study was anchored on the dynamic capability's theory developed by Teece (1997) as a reaction and an extension to the resource-based view which had some gaps in interpreting the development of resources and capabilities being sources of competitive advantage. According to (Augier & Teece, 2009) dynamic capabilities theory is about the identification of different magnitudes of capabilities that are specific to a firm that can be taken as sources of competitive advantage and explaining how the bringing together of these competencies and resources can be established, organized, and protected. This is key in taking advantage of the key resources and competencies that are within and without the firm to deal with the dynamic environment. The dynamics capabilities theory denotes that for a firm to perform effectively it has to program its resources efficiently under harsh environmental uncertainties (Torres et al., 2018). This theory is key in explaining the functionalities of Technology in influencing firm performance as denoted by studies by (Drnevich et al., 2013; Pavlou & Sawy, 2010).

This theory postulates co-specialization which is about getting extra value by a combination of two or more assets. This theory is well in line with strategic alignment since it's concerned with the utilization of both resources and strategies which are key to providing competitive sustainability. The dynamics capabilities theory has also been used in studies that link business and technology Sidorova (2014) and also as a great foundation for studying the value of information technology resources in an organization (Drnevich et al., 2013).

2. LITERATURE REVIEW

A study by Tu (2018) investigated the role of strategic business alignment in information security management performance in Northern America. A combination of different sampling methods was used in getting the respondents for the study; the study used interviews where the respondents were 219 ICT officers. Analysis was conducted using the partial least method to evaluate the structural models. The study found that business alignment was a key component of any information security management which implies that every organization should ensure the alignment between the organization's resources and its strategies. There is a contextual gap as the study focused on the information security sector which cannot be generalized in the microfinance sector. Additionally, there is a methodological gap where the study used the partial least squares method while the current study will employ multiple linear regression to test the different hypotheses. In addition, the study used interviews for data collection while the current study will employ structured questionnaires to seek information from the respondents in the microfinance banks in Kenya.

A study by Wadström (2019) sought to investigate the business alignment focusing on business strategy and corporate strategy in E&C corporations in Sweden. The study employed a case study design while interviews and observations were used to acquire data from the respondents. The sampling was purposive since researcher had prior knowledge of the respondents due to working in the same organization which had 11 business units. The study found that alignment is key to the success of an organization in the business domain to ensure that organizations fully utilize their capabilities to compete in the dynamic business environment. There is a methodological gap where the study used a case study design while the current study will use stratified sampling from MFBs. In addition, the study was highly qualitative while the current study will be quantitative and employ both descriptive and inferential statistics from primary data that will be collected using close-ended questionnaires. Another gap identified was the use of interviews and observations while the current study will use a structured questionnaire.

The conceptualization of business alignment has been undertaken by authors as a combination of IT business alignment (Mechman et al., 2021; Mohamed & Khalifa, 2016; Panda & Rath, 2017). With the reviewed limited literature on business alignment as a construct, there is a need to fill the knowledge gap on the effect of business alignment as conceptualized in configuration of business strategies and business infrastructure on performance.

Conceptual Framework



Source: Author (2023)

3. RESEARCH METHODOLOGY

This study adopted a cross-sectional descriptive and explanatory research design to explain the phenomenon under study with multistage sampling to draw 181 respondents from the target population of 181 respondents. The cross-sectional descriptive design was key in identifying more details from the respondents on the characteristics of the variables under study in the microfinance banks in Kenya. The use of both cross-sectional descriptive and explanatory research designs gave deeper insights into this study, regarding strategic alignment's effect on the performance of microfinance banks in Kenya.

The study used the census of all headquarters of the MFBs in Kenya, the respondents were derived from different strata from the different management levels of these MFBs. The levels are top-level management, middle-level management, and lower-level management. In this study, the target population which is the unit of analysis were the 14 microfinance banks', head offices registered under the Central Bank of Kenya while the unit of observation was the staff in the different levels of management of the 14 microfinance banks. The reliability tests in this study were conducted using Cronbach's alpha computed through the use of SPSS where subsequent tests were conducted until the instruments achieved reliability ranges of over 0.7 which the study then adopted. The researcher engaged academic peers who had completed their research projects as well as research supervisors who reviewed the documents in a bid to improve them and enhance face validity. Data was collected using closed-ended questionnaires and was keyed in for analysis in Statistical Package for Social Sciences (SPSS) for both descriptive and inferential statistical analysis. Descriptive statistics which are key in the analysis of data were conducted in terms of means, standard deviations, and percentages to ensure that the data is easily understood in this mode of presentation. Results were presented in the form of tables, percentages and graphs. According to Kaur(2018) descriptive statistics are meant to provide a summary that is well organized that brings out the relationship between variables or a population sample. Inferential statistics were also conducted for quantitative data collected. This was done by the use of Pearson R and linear regression analysis.

4. RESULTS AND DISCUSSIONS

The independent variable in this study was business alignment which focuses on the link between business strategies and business infrastructure. The variable is a key component of the strategic alignment model, whereby it was operationalized by Business Processes, Business Infrastructures and Business Strategies. Business alignment is concerned with how the activities undertaken by the firm respond to the market environment around and are supported by the administrative infrastructure, business processes, and human resource skills. Respondents were requested to give their opinion on how their microfinance bank aligns Business Strategy (business Scope, business competencies & governance) and Business Infrastructure/Processes (Human Resources, Loan Approval Processes, Reporting structures) to gain a competitive advantage over others in the industry. The results are shown in Table 4.1 below

Table 4.1 Descriptive Statistics for Business Alignment

| | Mean | Std Deviation |
|--|-------------|---------------|
| 1 Our business processes are designed and made to serve the customer's needs | 4.54 | 0.606 |
| 2 The internal business process is designed to assist our microfinance bank to achieve our business goals effectively. | 4.57 | 0.584 |
| 3 There is a match between business strategies and our internal business processes in our microfinance bank | 4.51 | 0.598 |
| 4 In our microfinance bank, we ensure that the business-related strategic opportunities fit with the business infrastructure | 4.50 | 0.608 |
| 5 In our microfinance bank, both the business infrastructure and business strategies are related. | 4.50 | 0.627 |
| 6 Business Processes help our MFB to offer quality service to our clients as we speak one language. | 4.51 | 0.626 |
| 7 There is alignment between the business infrastructure and business strategies in our microfinance bank. | 4.57 | 0.583 |
| Aggregate | 4.53 | 0.604 |

Source: Study data (2022)

The results in above table 4.1 show that the majority of the respondents agreed that the internal business process in their microfinance banks is designed to assist the microfinance bank to achieve business goals effectively as shown by a mean of 4.57 and a standard deviation of 0.584. The results indicate that the respondents fairly agree on the business alignment in the microfinance banks. The study noted that in microfinance banks there exists an alignment between the business infrastructure and business strategies in their microfinance bank as shown by a mean of 4.57 and a standard deviation of 0.583. In addition, the respondents agreed that the business processes in their microfinance banks were designed and made to serve the customer needs, which is a key factor in customer attraction and retention, which leads to better performance as indicated by a mean of 4.54 and a standard deviation of 0.606. The study found out that the business Processes helped the microfinance bank to offer quality service to our clients due to speaking in one language across departments, with an aim for better organization performance as indicated by a mean of 4.57 and a standard deviation of 0.584. Further, the study found that in the microfinance banks, both the business infrastructure and business strategies are related as shown by a mean of 4.50 and a standard deviation of 0.627. It was noted that there was minimal disparity among the respondents of the microfinance banks, regarding intellectual alignment with the standard deviation ranging from 0.583 to 0.627.

The aggregate mean score for this variable was 4.53 and a standard deviation of 0.604. The mean score of 4.53, which is the highest among the independent variables indicates that business alignment influences performance in microfinance banks by ensuring the smooth flow of business processes. The standard deviation of 0.604 implies that there were minimal variations in the responses from the respondents, regarding business alignment in the microfinance banks in Kenya. The results indicate that the majority of the respondents agree to a large extent on the importance of business alignment in the overall performance of their microfinance banks. These findings are in agreement with Wadström (2019) who found out that business alignment is key to the success of an organization in the business domain to ensure that organizations fully utilize their capabilities to compete in the dynamic business environment.

Hypothesis Testing

The following null hypothesis was tested.

Business alignment has no significant effect on the performance of Microfinance banks in Kenya.

The objective of this study was to establish the effect of business alignment on the performance of microfinance banks in Kenya. The null hypothesis was that business alignment had no significant effect on the performance of microfinance banks in Kenya. This was done by running a simple linear regression analysis with the results tabulated in table 4.2 below;

Table 4.2 Model Summary for Business Alignment and Performance

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .644 ^a | .414 | .411 | .33181 |

a. Predictors: (Constant), Business Alignment

Source: Study Data 2022

The results in table 4.2 above indicate that the correlation coefficient was at 0.644 which indicates that there is a strong positive correlation between business alignment and the performance of microfinance banks in Kenya. The adjusted R squared value of 0.411 indicates that business alignment contributed to a 41.1 % positive change in microfinance banks in Kenya while the difference 58.9% is explained by other factors apart from business alignment.

The study further conducted the ANOVA test to determine the significance of the model in predicting organizational performance. The results are tabulated in Table 4.3 below;

Table 4.3 ANOVA Results for Business Alignment and Performance

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1 | Regression | 13.161 | 1 | 13.161 | 119.535 | .000 ^b |
| | Residual | 18.607 | 169 | .110 | | |
| | Total | 31.768 | 170 | | | |

a. Dependent Variable: Organization Performance

b. Predictors: (Constant), Business Alignment

Source: Study Data 2022

Table 4.3 above indicates that the result for F- statistic was 119.535 which was more than the F critical value of 3.897. These results indicate that the model was significant in predicting organizational performance. The P- Value from this model was 0.000 which is less than 0.005, which indicates that the model was fit in measuring the effect of business alignment on the performance of microfinance banks in Kenya.

Further, the study determined the beta coefficient of business alignment as indicated in the Table 4.4 below;

Table 4.4 Regression Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|-------|--------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | 1.011 | .234 | | 4.326 | .000 |
| | Business Alignment | .681 | .062 | .644 | 10.933 | .000 |

a. Dependent Variable: Organizational Performance

Source: Study Data 2022

From the above table the simple linear regression equation can be denoted as;

$$P = 1.011 + 0.644 \text{ Business Alignment} + \epsilon$$

The above results indicate that if all factors are held constant, the performance of microfinance banks would be at 1.011 while business alignment would influence performance by 64.4% if all other factors are held constant as indicated by the standard beta coefficient value of 0.644. The results indicate that the significance level was at $0.000 < 0.05$ which indicates that the variable was significant. The study rejected the null hypothesis and concluded that business alignment has a significant effect on the performance of microfinance banks in Kenya as indicated in the summary below in table 4.5;

Table 4.5 Summary of the test results of the study hypotheses

| Hypotheses | Findings | Decision | Conclusion |
|---|--------------|------------------------|--|
| H ₀₂ : Business alignment has no significant effect on the performance of Microfinance banks in Kenya. | P=0.000<0.05 | Reject H ₀₂ | Business alignment has a significant effect on the performance of Microfinance banks in Kenya. |

The results and conclusion of this hypothesis are explained based on demographic results, previous literature as well as the underpinning theories. The study noted that the majority of the respondents were between the ages of 30-40 which represented 48.2 %, with most having a bachelor's degree represented by 61.1% but had 0-5 years that had worked in their respective microfinance banks, which indicates that the majority of the respondents were relatively young and well educated thus understanding the business process and were keen on ensuring processes are followed like the loan approval processes. The fact that the majority of the respondents had worked for between 0-5 years meant they were freshly trained and had a zeal for success and understood the deliverables in their microfinance banks.

Concerning the descriptive statistics the majority of the respondents agreed that the internal business process in their microfinance banks is designed to assist the microfinance bank to achieve business goals effectively as shown by a mean of 4.57 and also that the respondents agreed that the business processes in their microfinance banks were designed and made to serve the customer needs which is a key factor in customer attraction and retention which leads to better performance as indicated by a mean of 4.53. The mean score of 4.52 which is the highest among the independent variables indicates that business alignment is important in microfinance banks to ensure the smooth flow of business processes. The results indicate a significant contribution of business alignment on the performance of microfinance banks in Kenya.

The results are also in line with the theoretical framework used in this study. The dynamic capabilities theory by Teece (1997) postulates that for a firm to perform effectively, that it has to align its resources efficiently. The capabilities under the business alignment are the human resource capabilities, loan approval processes, and business competencies which need to be aligned to ensure better organizational performance. Business strategies are key to the success of every organization but their implementation requires educated personnel who are capable and understand the business scope. The results of the study concur with the theory of dynamic capabilities which is about taking advantage of existing resources thus propelling greater performance.

The results are in line with the previous literature reviewed. For instance, the results agree with the study done by Wadström (2019) who established that business alignment was key to the success of an organization to ensure that business fully utilizes their capabilities to compete in the dynamic business environment. The results further concur with Tu (2018) who found out that business alignment was key in the performance of an institution with emphasis on the alignment of organization resources and its strategies. Overall, the results of this study are supported by the findings of Ilmudeen (2019) that strategic business alignment dimension has a significant relationship with all performance measures.

5. CONCLUSION AND RECOMMENDATIONS

The null hypothesis was that business alignment has no significant effect on the performance of microfinance banks in Kenya. The study findings led to the rejection of the null hypothesis and concluded that business alignment had a significant effect on the performance of microfinance banks in Kenya. This conclusion was explained by the demographic characteristics of the respondents, descriptive statistics of business alignment, past research and the dynamic capabilities theories. Based on the demographic characteristics, the study found that the majority of the respondents were lower-level management who were involved in the implementation of business alignment in terms of ensuring that the loan approval processes have been well adhered to, to ensure business scope and competencies are maintained.

The role played by the business alignment is crucial to the success of microfinance is key since the processes are key in ensuring loan approvals are done in time, by qualified personnel who respect the reporting structures. The majority of the respondents had also worked in their microfinance for between 0-5 years which means they understand the governance structures as well as processes needed for businesses to be successful. The human resource and processes are well in line with the dynamic capabilities theory which is key in taking advantage of the key resources and competencies that are within and without the firm to deal with the dynamic environment. Dynamic capabilities surpass the thoughts that sustainable competitive advantage was based on the accumulation of a firm of resources that have value are rare, inimitable, and non-substitutable and this is key in the performance of microfinance banks in Kenya.

The descriptive statistics findings indicate that the majority of the respondents agreed that the internal business process in their microfinance banks is designed to assist the microfinance bank to achieve their business goals effectively. The findings also noted that in the microfinance banks, there exists an alignment between the business infrastructure and business strategies in their microfinance bank which was critical to the success of microfinance banks in Kenya. These findings indicate that the microfinance banks have aligned their strategies to respond to the market environment around them, supported by the administrative structures and human resources skills available to microfinance.

The literature reviewed supports the role played in positively affecting performance and its important that microfinance banks align their business strategies and infrastructure to ensure their processes are well supported. This way microfinance can restructure its processes to compete with the other competitors in the industry. These findings are in agreement with other prior studies that support that business alignment is key to ensuring performance in organizations which is evident that the findings can be generalized to microfinance banks in Kenya.

This study contributes to knowledge by providing an empirical study on the relationship between business alignment and the performance of microfinance banks. The management should put in place processes and mechanisms that allow the more services to be offered from an application on the mobile to ensure faster and speedy disbursement of loans. The fact that microfinance banks offer loans to the unbankable should ensure that the process is friendly and quick to ensure they retain their customer base which is under threat due to the emergence of the fintech in the market. The study recommends that the management and policy makers in the microfinance banks in Kenya should work to align the strategic resources under their care to ensure they remain competitive in the fast-developing financial services sector. Since the alignment of the strategies lies within the management of the microfinance banks, the reconfiguration of key infrastructures including business infrastructures and information technology infrastructures should be cascaded to all levels of management in the microfinance banks.

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