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The Role of SWOT Analysis in formulating an Effective Strategy for Microfinance Institutions

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Abstract

  The study aimed to identify the role of SWOT analysis in formulatingan effective Strategy for Microfinance Institutions (MFIs).Statistical analytical method and Multiple Regression through an electronic questionnaire form submitted to the sample consisting of 40 participants from MFIs is deliberated. The results of the study show that there is a significant statistical role of SWOT analysis represented by (strengths, weaknesses) in formulating an effective strategy for microfinance institutions, while there is no a significant statistical role of SWOT analysis represented by (threats and opportunities) in formulating the strategy.

Keywords: Microfinance Institution;SWOT; Strategy formulation; Environmental Analysis; Strategy Analysis, MFIs.

1 Introduction

The microfinance sector is one of the most important non-banking financial tools capable of maximizing financial inclusion rates, and as stated by the head of the Financial Regulatory Authority that this sector is one of the vital sectors of the state for its role in raising the standard of living for marginalized groups in accordance with the plan State for sustainable development and empowerment of youth and women. In light of the data of the Global Financial Inclusion Index for 2017, the rate offinancial inclusion is 33%, and we believe in the role of microfinance institutions in promoting financial inclusion in line with the state's plan to integrate the largest possible number of citizens into the formal economy system, and in light of the rapid tangible changes recorded by the MicrofinanceIndustry During that period. The present study sheds light on the strategic factors in the internal environment of the organization, including strengths and weaknesses, opportunities and threats in the external environment. This is done through SWOT Analysis, which is concerned with analyzing and evaluating each variable of the internal and external environmental variables of the organization, so that the organization can formulate a strategy that achieves its objectives.

2**Literature studies**:The studies of(**Harmincova and Janda, 2014) ,(Roy, 2011) and(Sandeep R ,2016**)used the SWOT analysis to identify the strengths, weaknesses, opportunities and threats to the microfinance sector in India using the descriptive analytical method, and the studies concluded that there is a huge potential for growth in India in the future , The studies emphasized the importance of SWOT analysis and its effective role in formulating and designing the strategy that achieves the organization's goals. The study by (**Al-Nama ,2012)** aimed at analyzing the factors of the internal and external environment and the impact of these factors and their role in formulating the strategy and reformulating the vision and mission of the institution using the introspective approach to analyze the literatureto reformulate the vision and mission of the institution, and this study relied entirely on secondary sources that dealt with strategic management without addressing any statistical methods The study (**Al-Daoudi,2007)** studied the impact of analyzing the external and internal environment in the formulation of the strategy, and the researcher dealt with the diagnosis of the internal and external environment as one of the important components of the strategic management process and discussed the concept of strategy, and the researcher reached the importance of analyzing the internal and external environment in formulating and designing the organization's strategy, after sufficient analysis and good for the internal and external environment.. The study by(**Karel and Pavel ,2014**)aimed to analyze the environmental factors of the Syrian pharmaceutical facilities to determine the strengths and weaknesses in their internal environment and to discover the opportunities and threats that hinder the work of the facility in its external environment in order to determine its strategic options to ensure survival and growth in the market, and it used the analytical

descriptive approach, and the study concluded several Results, the most important of which is the ineffectiveness of the environmental analysis process that it performs in determining the strategic choice that achieves its competitive advantage, and the Syrian pharmaceutical enterprises focus on evaluating and analyzing some aspects of internal performance, and not focusing on evaluating and analyzing the components of the external environment. In-depth evaluation of aspects of internal performance, and adequate attention to the process of external environmental analysis to enable enterprises to adopt a successful strategic choice.

-The studies that dealt with the evaluation of microfinance institutions such asThe study of (Anis Chowdhury, 2009) indicated that the effectiveness of microfinance as a global tool for reducing poverty, and the studies of (Dokulilova&Janda and Zetek, 2009)) indicated that it is one of the most effective and flexible strategies in combating global poverty,Thestudy of**(Barclay O'Brien ,2006)** emphasized the importance of microfinance evaluation in the future development of microfinance and how evaluation tools can provide new insights, in the study **(Giovanni & Sylvain, 2006)** and the study **(Dean Karlan, 2011)** explained that good evaluation provides microfinance institutions with the best ways to manage their business and achieve the maximum that can be achieved at the social level. The study of **(Janda and Zetek, 2014)**emphasized The great importance of public financing for the growth of microfinance institutions.the study of**(Alshebami, ,2014)**indicated thatthere are multiple factors affecting the development of microfinance in Yemen, such as high interest rates, improper management, lack of qualified personnel, lack of professional skills, financial awareness, required guarantees, and religious perception, External risks, such as security challenges and macroeconomic stagnation, are viewed as more difficult than internal risks, as they represent the most serious problems facing the microfinance industry in the Arab world.The study **(Danielle Piskadlo, 2017)** confirmed that evaluating microfinance institutions has always been more of an art than a science and will remain an art, and confirms the urgent need for more Model evaluation methods for making correct decisions and moving forward towards financial inclusion.

The study by **Pipare [6]**conducted a descriptive statistical analysis using the SWOT analysis of microfinance in rural cities in India, the study concluded the need for a regulatory body to organize and guide a lot of microfinance institutions and non-governmental organizations in the field of microcredit.

3 Data and methodology

1- **Approach used:**The descriptive and analytical method is used for its relevance to the nature of the study.

2- **The sample:** A random sample was selected from the study population, and they are the directors of the microfinance institutions for the NGOs of category "A", which has an existing portfolio of more than 50 million pounds, and the NGOs of category "B", which are NGOs with a portfolio size of 10-50. million, and the study samplewas 40 participants, as shown in the following table No. (1)

Table No. (1): Shows the characteristics of the study sample

	VARIABLES	FREQUENCY	PERCENTAGE
GENDER	Male	36	90.0
	Female	4	10.0
MANAGERIAL LEVEL	chairman	1	2.5
	Member of the Board of Directors	2	5.0
	Finance activity manager	19	47.5
	Executive Director	4	10.0
	otherwise	14	35.0
Educational level	Bachelor's	36	90.0
	Master's	4	10.0
	PHD	0	0
	otherwise	0	0
YEARS OF EXPERIENCE	Less than 10 years	1	2.5
	From 10-15 years	11	27.5
	More than 15 years	28	70.0
INSTITUTION CLASS	Class A	23	57.5
	Class B	17	42.5
YEARS OF EXPERIENCE	Less than 5 years	0	0
	From 5 to less than 10 years	2	5.0
	More than 10 years	38	95.0
THE FIELD OF WORK OF THE INSTITUTION	commercial	24	26.4
	service	39	42.9
	Agricultural	22	24.2
	productive	6	6.6

Source: The outputs of the SPSS.v25 program is calculated.

3- **Study tools:** The questionnaire was used as a main tool to obtain primary data from the study population, as the questionnaire consisted of two axes as follows:

The first axis: dealing with the dimensions of the independent variable, the SWOT analysis, which includes (99) phrases, and aims to identify the strengths and weaknesses of the institutions being evaluated, and the potential external opportunities and threats to them, which are:

- ➢ Strengths: It includes phrases (1-32).
- ➢ Weaknesses: It includes phrases (33-51).
- ➢ Opportunities: It includes phrases from (52-71).
- ➢ Threats: It includes phrases (72-80).

The second axis: dealing with the dimensions of the dependent variable in the formulation of the strategy and includes (34) phrases, namely:

- ➢ Strategic Vision: It includes phrases (81-84).
- ➢ Strategic Mission: It includes phrases (85-90).
- ➢ Strategic Objectives: These include phrases (91-95).
- ➢ Strategies: It includes phrases from (100-133).
- ➢ Policies: It includes phrases (96-99).

All constructs were measured using five-point Likert scales,Modifications were made to the scale to fit the purpose of the study.

Validity and Reliability of the questionnaire:

Where Cronbach's alpha coefficient was used to ensure **validity and reliability**of the study tool, as the following table shows:

Table No. (2): Cronbach's alpha coefficient to measure the **Validity and Reliability** of the study tool

Axis		Number of vertebrae	Cronbach's alpha coefficient	**Validity** coefficient
Analysis (SWOT)	strengths point	32	0.964	0.982
	Weaknesses	19	0.951	0.975
	opportunities	20	0.906	0.952
	Threats	9	0.854	0.924
	the total	80	0.881	0.939

Strategy formulation	Vision	4	0.881	0.939
	Mission	6	0.891	0.944
	Objectives	5	0.932	0.965
	strategies	34	0.914	0.956
	policies	4	0.908	0.953
	the total	53	0.955	0.978
	the questionnaire as a whole	133	0.940	0.970

Source: The outputs of the SPSS.v25 program is calculated

The table shows the value of Cronbach's alpha, which is 0.940, and the coefficient of Validity is (0.970), which indicates a high degree of Validity and Reliability of the questionnaire, and it can be relied upon in the field application.

4- The statistical method used: The following statistical methods were used:

a. Measures of descriptive statistics such as arithmetic means, standard deviation, and frequencies.

b. Cronbach's alpha coefficient:Measure the reliability of the estimates obtained from the questionnaire

c. The criterion validity factor: Measure the validity of the research tool.

d. **Kolmogorov-Smirnov test**to see if the data follows a normal distribution.

e. Multiple regression analysis to find out the relationship between the strategy formulation as a dependent variable and the interpreted variables (strengths, weaknesses, opportunities, threats).

4 Research Hypotheses

I. There is a statistically significant role for analyzing strengths in formulating an effective strategy for microfinance institutions.

II. There is a statistically significant role for analyzing weaknesses in formulating an effective strategy for microfinance institutions.

III. There is a statistically significant role for the available opportunities in formulating an effective strategy for microfinance institutions.

IV. There is a statistically significant role for threats in formulating an effective strategy for microfinance institutions.

4 Data analysis and results of hypothesis testing

➤ Descriptive statistics of the study variables

The results of the descriptive statistical analysis of the variables of the study according to the responses of the participants in the study, and the weighted average of the responses using the five-point Likert scale was used to find out the direction of the respondents' opinions according to Table (3) as follows:

Table No. (3): Shows the descriptive statistics of the study variables

VARIANTS	MEAN VALUE	STANDARD DEVIATION
SWOT ANALYSIS	3.5753	0.27778
STRENGTH POINT	4.1313	0.61739
WEAKNESS	2.2013	0.84226
OPPORTUNITIES	3.6963	0.53306
THREATS	4.2306	0.35972
STRATEGY FORMULATION	3.6443	0.56992
VISION	4.1375	0.75096
MISSION	4.0417	0.74607
OBJECTIVES	4.1500	0.74524
STRATEGIES	3.3846	0.58795
POLICIES	4.1313	0.76792

Source: The outputs of the SPSS.v25 program is calculated.

The table shows that the SWOT dimensions were distributed according to the responses of the managers of microfinance institutions, where the threats were at the highest average score, with an arithmetic mean of (4.2), then the strengths, where the arithmetic mean was (4.1), then followed by the opportunities, with

an arithmetic mean of (3.69), then the weaknesses were with an arithmetic mean of (2.2). As for the axes of strategy formulation, the objectives came in the first order with an arithmetic mean of (4.15), followed by the vision in the second order with an arithmetic mean of (4.14), then policies in the third order with an arithmetic mean of (4.13), then strategies with an Arithmetic mean is (3.38).

➢ **Klimgrove-Smirnov test:**

Introduction to the Statistical analysis procedure,the **Kolmogorov-Smirnov test**was used to determine whether the data followed a normal distribution or not.

Table No. (4): shows the results of the **Kolmogorov-Smirnov test**

VARIABLES	NUMBER OF PARAGRAPHS	TEST VALUE	"SIG" VALUE
STRENGTH POINT	32	.106	.200
WEAKNESS	19	.120	.154
OPPORTUNITIES	20	.123	.131
THREATS	9	.121	.143
STRATEGY FORMULATION	4	.070	.200
VISION	6	.115	.200
MISSION	5	.100	.200
OBJECTIVES	34	.091	.200
STRATEGIES	4	.098	.200
POLICIES	32	.106	.200

Source: The outputs of the SPSS.v25 program is calculated.

➢ **Testing the hypotheses of the study:**

The researcher used the multiple linear regression model to test the hypotheses of the study to find out the relationship between the explanatory variables (strengths, weaknesses, opportunities, threats) and the formulation of the strategy as a dependent variable, and the results were as shown in Table (5).

Table No. (5): The results of the multiple linear regression model between SWOT analysis and strategy formulation

DEPENDENT VARIABLE	EXPLANATORY VARIABLES	B VALUE	T INDICATION	T	CONTRAST MAGNIFICATION COEFFICIENT

	S	1.006	.000	4.279	0.238
STRATEGY FORMULATION	W	1.053	.020	2.445	0.130-
	O	1.013	.116	1.613	0.219
	T	1.051	.124	1.575	0.322
R= 0.667 ,R ^{2}=0.445, F-VALUE = 7.015 , SIG. F = 0.000					

Source: The outputs of the SPSS.v25 program is calculated

The results of the table show that the regression model is significant, with a value of (7.015), with a significance of (0.000), which is smaller than the level of significance (0.01), with a confidence level of 99%. The coefficient of determination was (0.445), meaning that the explanatory variables explain (.445) of the variation in the formulation of the strategy.

First Hypothesis Test:

The table shows that the value of beta, which illustrates the relationship between strengths and strategy formulation, is (.238) statistically significant, and the level of the test function is (.000) smaller than the level of statistical significance 0.05, and this indicates the existence of a positive and statistically significant effect relationship for strengths. Thus, we accept the first hypothesis that there is a statistically significant role for analyzing strengths in formulating an effective strategy for microfinance institutions.

Second Hypothesis Test:

The value of beta that illustrates the relationship between weaknesses and strategy formulation came with a value of (-130), and the level of the test function is (.020), less than the level of statistical significance 0.05, and this indicates the existence of a negative and statistically significant effect relationship, and thus we accept the second sub-hypothesis that there is a significant role Statistical significance for analyzing weaknesses in formulating an effective strategy for microfinance institutions.

Testing the third hypothesis:

The beta value of the opportunity variable came with a value of .219)) and the level of the test function is (.116) greater than the level of statistical significance 0.05. Thus, there is no statistically significant relationship for the analysis of opportunities in the formulation of the strategy, and from it

we reject the third sub-hypothesis that there is a statistically significant role for opportunities in formulating an effective strategy for microfinance institutions.

Testing the fourth hypothesis:

The B values for the threats variable came with a value of (.322), and the level of the test function is (.124) greater than the level of statistical significance 0.05. Thus, there is no statistically significant relationship for the analysis of threats in the formulation of the strategy, and from it we reject the fourth sub-hypothesis that there is a statistically significant role for threats in formulating an effective strategy for microfinance institutions.

5 Results

We conclude that there is a role for analyzing strengths and weaknesses in formulating an effective strategy for microfinance institutions, while there is no role for analyzing opportunities and threats in formulating an effective strategy for microfinance institutions.

- Results Shows that the variance inflation factor of the model is smaller than 3, which indicates that there is no linear plurality problem between the explanatory variables and the dependent variable under study.

- The results of the table show that the regression model is significant, with a value of (7.015), with a significance of (0.000), which is smaller than the level of significance (0.01), with a confidence level of 99%. The coefficient of determination was (0.445), meaning that the explanatory variables explain (.445) of the variation in the formulation of the strategy.

- the SWOT dimensions were distributed according to the responses of the managers of microfinance institutions, where the threats were at the highest average score, with an arithmetic mean of (4.2), then the strengths, where the arithmetic mean was (4.1), then followed by the opportunities, with an arithmetic mean of (3.69), then the weaknesses were With an arithmetic mean of (2.2). As for the axes of strategy formulation, the objectives came in the first order with an arithmetic mean of (4.15), followed by the vision in the second order with an arithmetic mean of (4.14), then policies in the third order with an arithmetic mean of (4.13), then strategies with an arithmetic mean is (3.38).

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