

The COVID-19 Pandemic Business Risks and Coping Mechanisms: A Case of Micro-Finance Institutions in Harare, Zimbabwe

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Abstract

The COVID-19 pandemic caused a global economic crisis which had a profound effect on various sectors including the microfinance sector. The microfinance sector is important in the attainment of an upper middle-income economy for Zimbabwe by 2030 as it caters for a constituency that is marginalized by the mainstream banking sector. This constituency mainly includes the poor and small to medium enterprises. This study investigated the coping mechanisms that were implemented by microfinance institutions (MFIs) in Harare in response to the pandemic and its impact on business risks. The research was underpinned by the adaptive leadership theory. It had the objectives of ascertaining the impact of the pandemic on the adaptive capacity of MFIs, the relationship between leadership style and the effectiveness of coping mechanisms. Lastly, it focused on the role that was played by the Reserve Bank of Zimbabwe in helping microfinance institutions to manage risk. The study used an exploratory sequential design with data derived via a combination of questionnaires and interviews from a sample drawn from 153 microfinance institutions in Harare. The findings revealed that MFIs faced a variety of risks but were highly adaptive, employing a mix of strategies such as downscaling, diversification, digital transformation, and activating business continuity plans. The study also established a positive relationship between leadership style and coping mechanism effectiveness, as well as a moderate effectiveness of RBZ interventions in assisting MFIs in remaining operational. The findings emphasize the importance of MFIs adopting best practices, receiving policymaker support, and collaborating with stakeholders to effectively manage pandemic-related risks.

Key Words: microfinance, risk management, Covid-19, Monetary policy, RBZ, adaptive capacity

Introduction and Background

The Corona virus pandemic, herein after referred to as Covid-19, wreaked havoc to world economies with most of them being pushed into recession and leading to the closure of many

companies and furloughing of employees. Zimbabwe is no exception, facing both loss of lives and significant changes in business operations. The study focused on the impact of the Covid-19 pandemic on Microfinance Institutions (MFIs) in Harare, Zimbabwe. The study aims to investigate how MFIs in Harare coped with the business risks associated with Covid-19.

Business risk, as defined by Kenton (2022), refers to a company's exposure to internal and external factors that can reduce profits or lead to business failure. In the context of this study, the Covid-19 pandemic created a Volatile, Uncertain, Complex, Ambiguous (VUCA) environment, characterized by constant change and unpredictability. The World Health Organization's (WHO) containment measures introduced by governments exacerbated this environment; creating challenges for businesses to remain viable. Microfinance institutions play a crucial role in providing financial services to individuals with low incomes and promoting financial inclusion. However, during the pandemic, these institutions faced significant challenges due to their high-touch nature and reliance on small businesses and financially marginalized individuals. The preventative health measures, such as social distancing and remote work, increased operating costs and hindered the provision of financial services, leading to some MFIs shutting down operations. To address these challenges, MFIs needed to be highly adaptive and implement coping mechanisms. The study aims to explore these coping mechanisms and is grounded in the Adaptive Leadership Theory. By understanding how MFIs in Harare responded to the Covid-19-related business risks, the research seeks to provide insights into effective strategies for navigating such crises.

Brounen and Derwall (2010), postulated that the effects of pandemics can be likened to those of terrorist attacks as they negatively impact business activities and productivity. The Financial Times (2020) also notes that Covid-19 caused panic in the financial system, resulting in volatility in capital markets. Akhtaruzzaman et al. (2020) emphasize that financial firms worldwide have been negatively affected, hindering their core business of deposit taking and lending. Additionally, microfinance institutions play a crucial role in providing financial products and services to low-income individuals and small businesses who lack access to traditional banking services (Muithya, Muathe, & Kinyua, 2021). However, the pandemic has had a disastrous impact on global economies, and MFIs have not been immune to its effects (Sun & Bunchapattanasakda, 2019).

Before the pandemic, the microfinance sector in Harare was thriving, with high operational self-sufficiency ratios and a growing number of active loan clients (RBZ, 2020). However, with the introduction of lockdowns and the enforcement of public health regulations (SI77/2020) by the Zimbabwean government (Veritas, 2021), many businesses, including MFIs, had to halt operations. This led to severe disruptions and a decline in the sector's performance, resulting in job losses and increased non-performing loans (Zimstats, 2021; Marcu, 2021). The decline in business growth by MFIs in 2020 is evident from various indicators such as operational self-sufficiency, number of active loan clients, number of branches, and number of female borrowers (RBZ, 2020). The closure of the informal sector during the lockdown had a significant impact, particularly on female-owned microenterprises, leading to a reduction in the number of women accessing loans from MFIs (RBZ, 2020). In response to the challenges posed by the pandemic, MFIs have had to adapt to the new business environment, highlighting the importance of adaptive leadership (Heifetz, Linsky, & Grashow, 2009). Adaptive leadership involves inspiring others to tackle difficult tasks and succeed in the face of adversity. It requires leaders to identify crucial aspects of operations and make necessary changes while considering the implications for stakeholders (Crevier & Parrott, 2019).

This study sought to address the impact of pandemic-related risks on the adaptive capacity of MFIs in Harare, Zimbabwe. The effectiveness of coping strategies implemented by MFIs was evaluated, considering the relationship between leadership styles and the success of these strategies. Additionally, the study investigated the effectiveness of interventions by the Reserve Bank of Zimbabwe (RBZ) on the operational viability of MFIs during the Covid-19 pandemic. By achieving these objectives, the research contributes to a better understanding of how MFIs in Harare navigated the challenges posed by the pandemic, inform effective coping strategies, and evaluate the role of leadership styles and RBZ interventions in supporting the operational viability of MFIs in times of crisis. This knowledge will assist in strengthening the resilience of MFIs and enable them to provide vital financial services during challenging times.

Literature Review

The study is anchored on the adaptive leadership theory which succinctly describes how an organization reacts to changes in the external environment and how adaptive leadership can be used to navigate an unpredictable environment. The Adaptive Leadership Theory, inspired by

God's instructions to Joshua to be strong and courageous in unfamiliar territory, provided a suitable framework for studying leadership challenges in microfinance institutions during the pandemic. The theory introduced by Ronald Heifetz (1994) emphasize the need for leaders to be agile and adaptable in volatile environments. It distinguishes between technical and adaptive challenges, with adaptive challenges requiring creativity, experimentation, and a willingness to learn. Adaptive leaders engage with stakeholders, encourage experimentation, embrace self-correction, and seek win-win solutions for the organization and its stakeholders. Adaptive leaders also practice self-correction and reflection, continuously analysing and improving policies to ensure business continuity (Heifetz, Linsky & Grashow, 2009). Empathy plays a significant role, as adaptive leaders foster a sense of community and recognize the genuine efforts of their staff. They embrace flexible staffing and output-based performance measurements to adapt to the new work environment. Furthermore, adaptive leaders aim for win-win solutions, considering the interests of both the organization and its stakeholders. They seek collaboration and stakeholder engagement to protect the viability of the organization's strategies (Heifetz & Linsky, 2017). This often involves making difficult decisions, such as implementing loan repayment moratoriums, to support customers while maintaining the organization's long-term success.

The pandemic-related business risk has been classified as the independent variable and creates conditions by which MFIs are supposed to react and be adaptive. Some of these conditions include the risks of operations, liquidity, market and credit. The intervening variables affect the dependent variable with factors like unemployment contributing towards non-performing loans. At the same time, legislation and more specifically SI 77/2020 increased operational expenses which meant the MFIs had to downsize or get into mergers. Furthermore, the leadership style influences the success of the coping mechanisms as well. As MFIs do not exist in a vacuum, whatever coping mechanism they introduce for example digital transformation, is also influenced by stakeholders.

Microfinance, as defined by Yunus (2007), refers to the provision of financial services to unemployed or underprivileged individuals or groups who lack access to traditional financial products and services. The Reserve Bank of Zimbabwe (RBZ) expands on this definition, stating that MFIs offer a range of financial services, including savings, microloans, insurance, and payment system services, to marginalized populations and small and medium enterprises (SMEs) that struggle to secure financing from formal financial organizations. The core functions of MFIs

revolve around lending, investing, and providing insurance. Van Heerden (2008), MFIs offer affordable credit and other financial instruments that must be repaid within a predetermined time frame. These institutions play a crucial role in the development of SMEs by offering bridging loans and acting as angel investors, injecting much-needed capital into businesses. Such institutions are authorized to provide loans or credit facilities and accept deposits from individuals who operate micro, small, or medium enterprises, as well as those whose monthly income is below the poverty datum line or households whose combined monthly income does not exceed five times the poverty datum line.

Business risk, as defined by Crouhy et al. (2006), refers to the uncertainties surrounding the demand and cost of goods and services. Van Lelyveld (2006) adds that it includes the possibility of earnings decreasing below fixed costs due to changes in margins and volumes. In simpler terms, business risk encompasses any financial loss resulting from changes in the external and internal environment. During the Covid-19 pandemic, MFIs faced exacerbated risks, primarily operational, market, and credit risks. Market risk, according to Dowd (2007), is the potential loss a bank may face due to changes in public market indicators like interest rates, share prices, and foreign exchange rates. Credit risk, as defined by Basel (2000), refers to the potential that a borrower or counterparty may fail to meet their obligations. The pandemic caused financial distress, particularly for poor borrowers and small to medium enterprises (SMEs) that heavily rely on day-to-day income. Lockdowns and business closures increased the likelihood of defaulting on loan payments, resulting in a rise in non-performing loans for MFIs. The pandemic's impact on consumer cashflow and reduced demand for products also led to companies collapsing and further contributed to credit risk.

Operational risk for MFIs increased due to the shift to digital platforms and remote work during the pandemic. This shift, while necessary, raised the chance of experiencing losses from ineffective internal systems, people, processes, and external occurrences. The operational risk included issues such as fraud and transaction risks, as observed with some microfinance institutions allowing employees to work remotely and carry out transactions on behalf of clients. Weak policies and procedures, especially in a transitional environment, increased the potential for cash leakages and fraudulent activities. Additionally, the lack of banking qualifications among some employees in

the microfinance sector may have led to reduced quality and customer care, negatively impacting customer retention and further affecting the bottom line.

Transformational leadership, as described by Burns (1978), is the process where a leader inspires followers to prioritize the group's needs above their own. This leadership style involves four aspects: inspirational motivation, intellectual stimulation, idealized influence, and individualized consideration, as identified by Bass and Avolio (1994). The goal of transformational leadership is to enhance followers' performance and help them reach their full potential. It involves empowering employees, fostering social cohesiveness, and connecting organizational values to personal values. Transformational leaders embrace flexibility and adaptability to external factors, as highlighted by Negussie and Demissie (2013). On the other hand, transactional leadership focuses on the exchange of goals and incentives between management and workers. It involves contingent rewards, where material and psychological benefits are provided to subordinates based on meeting specific requirements and tasks, as noted by Bass (1994). It also includes management by exception, which can be active or passive. Active management by exception involves monitoring and taking action when errors occur, while passive management by exception involves intervening only when deviations from requirements are apparent. Democratic leadership, as defined by Tannenbaum and Schmidt (2012), involves decentralized decision-making where all employees participate. It can increase employee commitment and motivation but also carries the risk of poor decision-making. However, Bhargavi and Yaseen (2016) found positive effects of democratic leadership on organizational success during challenging times. Employees are given autonomy and responsibility, and their participation in decision-making can facilitate change management and adaptability.

Studies have shown that transformational leadership positively impacts organizational learning and the effectiveness of coping mechanisms against business risks (Abazeed, 2018). Transactional leadership can enable employees to innovate and implement risk management strategies (Alsabbagh and Al Khalil, 2017). Democratic leadership, while carrying some risks, can enhance organizational adaptability and engagement during challenging times (Ince et al., 2015).

In light of the challenges posed by the pandemic, microfinance institutions have had to adapt and find new ways to navigate the business risks. One approach that has proven effective is digital transformation. By adopting digital technologies and virtual work, MFIs have been able to

continue their operations while ensuring the safety and well-being of their employees (Dabrowska et al. 2020). This includes conducting loan applications and approvals online, utilizing artificial intelligence-enabled tools for faster loan processing, and implementing remote work platforms for collaboration (Czura et al., 2022). However, it is important to acknowledge that successful digital transformation relies on the presence of IT infrastructure and the digital literacy of clients. Many microfinance clients come from low-income backgrounds and may face challenges in accessing and utilizing digital platforms. This poses a hurdle that must be addressed to ensure that all clients can benefit from these technological advancements.

Downsizing has also emerged as a strategy for some MFIs. By readjusting their organizational structures and reducing operational costs, organizations have aimed to improve profitability and ensure their survival. This may involve workforce reduction, work redesign, or systemic changes (Longenecker, 2007). Additionally, scaling down branches that are not generating sufficient revenue has been another approach to cut costs and streamline operations (Oshi, Akaibe & Hettye, 2020). Diversification has also played a role in mitigating market risk and cash flow challenges. MFIs have expanded their product portfolios to include new services, product lines, and markets. This diversification strategy has helped to create a buffer against risk and enhance overall performance.

Lastly, loan restructuring has been necessary to address the credit risk faced by microfinance institutions during the pandemic. Offering loan repayment moratoriums and restructuring loans have provided much-needed relief to clients who have faced financial difficulties. This not only supports clients in overcoming challenges but also helps to maintain the reputation and attract new clients to the institution (Lieberman & Dileo, 2020). Microfinance institutions have adapted to the pandemic-related business risks through digital transformation, business continuity planning, downsizing, diversification, and loan restructuring. These strategies have allowed navigating the challenges and continuing serving clients while striving for success in these uncertain times.

Figure 1 below summarises presents the conceptual framework guiding this study as informed by the reviewed literature.



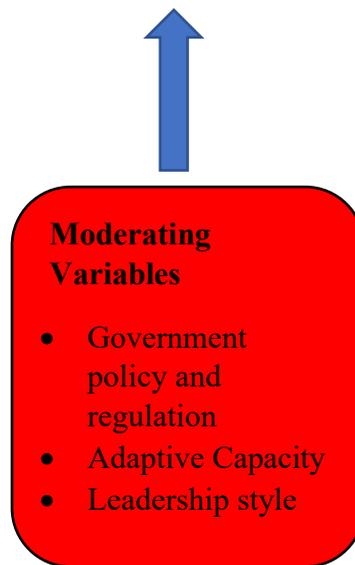


Figure 1: conceptual framework (Authors conceptualisation)

Research Methodology

The research in this study adopted an exploratory sequential design, which aligns with the pragmatic approach. Interviews with selected participants were conducted to validate coping mechanisms employed by microfinance institutions (MFIs) based on findings from the literature review. This investigative design allows for flexibility in sourcing data, utilizing both qualitative and secondary sources such as financial reports of publicly listed MFIs. The study employs a case study approach to investigate the coping mechanisms of microfinance institutions (MFIs) about COVID-19 related business risks. The case study focused specifically on MFIs in Harare, Zimbabwe, as it is a practical choice due to the concentration of licensed MFIs in the city. This approach allows for a more in-depth understanding of a limited number of institutions. To ensure the reliability and validity of the findings, a mixed methods approach is used, combining quantitative and qualitative data. Questionnaires with both closed and open-ended questions were used for data collection, allowing for comparative analysis. Regression analysis was applied to test hypotheses using the quantitative data, while interviews provide additional insights and uncover coping mechanisms not initially considered.

The target population (N) consisted of 150 operations managers and 500 employees, from the 150 microfinance institutions (MMFIs) located in Harare, making a total of 650 individuals. Operation managers were specifically targeted because they possess the necessary information related to

business performance. The rationale behind selecting this target population was based on areas of interest and practicality. The researcher determined a sample of 242 respondents using Rao soft software, which would increase the validity of the research. This sample represents 37% of the target population and includes 103 operations managers and 139 employees from the 150 microfinance institutions in Harare. Purposive sampling was used to select operations managers who had the necessary information on firm performance and business survival measures. Key informants were chosen from microfinance institutions that the researcher had personal contacts with. Convenience sampling was employed to select employees who were accessible and available to participate in the study. This approach aligns with the recommendations of Cooper and Saunders (2014) regarding sampling techniques. The researcher utilized secondary data from the Reserve Bank of Zimbabwe to obtain contact information for microfinance institutions in Harare.

Operations managers and managing directors formed 29 percent of the study participants. These were chosen because they possess the information relating to business performance (Slack et al, 2004). Loan officers occupying 18 percent of study participants were included in the study so as to get a better perspective on credit risk as they were the ones who deal with loan defaulters and new loan applicants. Tellers and customer acquisition team members occupying 18 percent and 7 percent of the study participants respectively, were selected on the basis of the researcher wanting to get an unbiased picture of leadership styles used in the microfinance sector.

In analysing the quantitative data collected from the questionnaires, IBM SPSS Version 21 was used as the data analysis software. Bivariate correlation analysis was conducted to determine the relationship between coping mechanisms and pandemic-related business risks. Linear regression analysis was employed to test hypotheses and assess the strength of the relationship between dependent and independent variables, while descriptive statistics were used to analyse demographic data. For the qualitative data obtained from the interviews, Amber script transcription software was used to transcribe the audio files. NVivo software was then utilized to analyse the most frequently used words and conduct thematic analysis.

Ethical considerations were given utmost importance throughout the research process. Informed consent was obtained from participants, who were fully informed about the purpose and implications of their involvement. Confidentiality was maintained, particularly with sensitive questions related to leadership styles, and participants were guaranteed anonymity.

Presentation and Discussion of Results

The sample showed an MFI sector that is male-dominated, with men comprising 57% at entry level and increasing to 67% in management positions. Women were underrepresented in banking and microfinance, but make up 70% of microfinance clients and took out more loans than men as reported by CGAP (2020). Female leaders demonstrated stable leadership, authentic qualities, and a strong commitment to values. Age diversity is important for organizations, especially during crises, as it enhances adaptability. Research by Froidevaux, Alterman, and Wang (2019) shows that age-diverse teams in the microfinance sector have demonstrated increased problem-solving, creativity, knowledge sharing, and teamwork during the COVID-19 pandemic. The workforce in microfinance is diversified in terms of age, with Generation X providing leadership and experience, while millennials and Generation Z contributing innovation. Mature managers aged 31-50 have shown to enhance job performance and financial sustainability, leveraging their experience and decision-making skills.

In terms of education, 85 percent of operations managers in microfinance institutions ~~studied~~ held post-graduate degrees, enabling them to navigate the challenges posed by the pandemic successfully. The most common degrees among these managers were in strategic management and business administration. This finding contradicts previous research suggesting that microfinance institutions were managed by individuals with lower qualifications. The Microfinance Act mandates that senior officers possess post-graduate qualifications, ensuring better management and protecting depositors' funds. However, the study discovered that 79 percent of general employees lacked outright banking qualifications, leading to lower employee engagement and higher turnover.

The researcher observed that individuals who had fewer years of experience in an organization tended to have higher turnover rates. To ensure reliable information regarding COVID-19 experiences within the organizations, participants with less than one year of experience were excluded from providing detailed insights. The study showed 58 percent of participants had been with their organizations for 1-5 years, indicating their presence during the COVID-19 pandemic and successful navigation of related challenges. However, the high turnover rate in the microfinance industry was evident, as most organizations had been in existence for over ten years. Given the operational and liquidity risks posed by the pandemic, the high turnover rate further

exacerbated challenges for microfinance institutions, making it more challenging to manage the situation effectively.

1. The effect of pandemic-related risks on the adaptive capacity of MFIs.

To ascertain the adaptive capacity of the MFIs under study, the researcher needed to ascertain the most common pandemic-related risks that the organizations faced. The most prevalent risk was operational risk, with 90 percent of respondents strongly agreeing or agreeing. This risk was influenced by factors such as credit risk, leading to non-payment of loans and operational constraints. Credit risk was the second most common risk, with 87.5 percent of respondents stating that clients struggled to repay loans. Liquidity risk was the third most significant risk, affecting 82.5 percent of respondents, as operational expenses increased and loan repayments were delayed. Market risk had the least impact, with only 37.5 percent of respondents indicating its influence, primarily for MFIs involved in the stock market or relying on external loans.

The study participants were asked about their understanding of organizational adaptive capacity to ensure reliable data collection regarding their respective organizations. The definitions provided by the respondents align well with the definition given by Aminzadeh and Khoshtinat (2016), who describe organizational adaptive capacity as the ability to continuously learn and adapt to both internal and external changes. A significant 52% of respondents strongly agreed that their organizations had the adaptive capacity to manage pandemic-related risks. These organizations attributed their adaptive capacity to factors such as lean organizational structures, business continuity plans, a culture of innovation, and flexible work arrangements. However, 37% indicated that their organizations lacked the necessary adaptive capacity. One respondent shared their organization's challenges, including the absence of a business continuity plan and insufficient resources for digital platform expansion. Despite this, the respondent noted that their organization had learned from the pandemic and is now better prepared for recovery. The study underscores the importance of organizational development and agile structures during crises. The researcher emphasizes the need for increased investment in adaptive strategies for business continuity, given that only 63% of organizations demonstrated high adaptive capacity.

2. Effectiveness of the coping strategies implemented by microfinance institutions in Harare.

The study aimed to assess the effectiveness of coping strategies implemented by microfinance institutions in Harare to mitigate pandemic-related risks. The researchers utilized multiple linear regression analysis to evaluate the effectiveness of six coping mechanisms, including downsizing, diversification, digital transformation, loan restructuring, activating a business plan, and two other variables excluded due to their statistical insignificance. These six variables were regressed against pandemic-related risks such as operational, credit, liquidity, and market risks. In the model, 6 variables of RBZ intervention, digital transformation, downscaling, activating business continuity plan, downscaling and diversification were used. The R-value indicated a correlation of 0.730 between the dependent variable (effectiveness of coping strategies) and the six independent variables. This means that there is a 73% correlation between these variables. The R-square value was 0.532 and this indicated that the model is capable of determining the relationship, as a value greater than 0.5 is considered significant.

The ANOVA table assesses the statistical acceptability of the model. The results are summarized in Table 1.

Table 1: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	19.356	6	3.226	6.071	.000 ^b
Residual	17.003	32	.531		
Total	36.359	38			

a. Dependent Variable: Effectiveness of coping strategies

b. Predictors: (Constant), RBZ intervention, Diversification, Activated business plan, Digital transformation, Loan restructuring, Downscaling

A 95% confidence interval or 5% (.05) level of the significance was chosen for this study. Table 1 shows a P-Value for the model as $.000 < .05$ which means that the model is statistically significant in predicting the effectiveness of coping mechanisms to pandemic-related business risks.

Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.607	.564		-1.075	.290
Activated business plan	.412	.136	.377	3.028	.005
Downscaling	.358	.151	.305	2.368	.024
Diversification	.519	.178	.364	2.909	.007
Digital transformation	.363	.123	.363	2.947	.006
Loan restructuring	.313	.115	.339	2.710	.011
RBZ intervention	-.606	.186	-.422	-3.264	.003

According to the regression analysis results presented in Table 2, all variables included in the model are statistically significant at the 5% level. The study found that the implementation of a business continuity plan had a statistically significant correlation with managing operational risks. A 1% increase in the implementation of the plan resulted in a 41.2% improvement in managing operational risks. This aligns with previous studies (Zheng and Zhang, 2021) highlighting the importance of business continuity plans in mitigating risks during crises. Additionally, downscaling was found to be statistically significant, with a one-unit increase leading to a 36% increase in the effectiveness of coping mechanisms against pandemic-related risks. Downscaling helped reduce operational expenses and minimize risks by divesting from certain markets. This finding is supported by the research by Datta et. al (2010), which identified downsizing as a buffer against market risk.

The study found that diversification had a significant relationship with managing pandemic-related risks. Increasing diversification led to a 52% improvement in managing such risks. This finding is supported by a study by Ariefianto, Trinugroho, & Yustika (2022), which emphasized the positive impact of diversification on the resilience of microfinance institutions during the pandemic. Digital transformation was also found to be statistically significant, with a percentage increase in digital transformation resulting in a 36% increase in the effectiveness of coping strategies against pandemic-related risks. Furthermore, loan restructuring was found to be statistically significant, with its implementation leading to a 31% increase in the effectiveness of coping strategies against credit risks. Null hypothesis is rejected if Sig. is less than 0.05. Significant

levels for all our variables in the model was <0.05 which therefore means that the null hypothesis is rejected and conclude that the coping mechanisms that were implemented by Harare MFIs contributed positively to mitigating the pandemic related risks.

3. *The relationship between leadership styles and coping strategies implemented by microfinance institutions.*

The study also sought to ascertain if there was any correlation between leadership styles and effectiveness of coping strategies implemented. The prevalence of leadership style during the COVID pandemic are given in Figure 2 below.

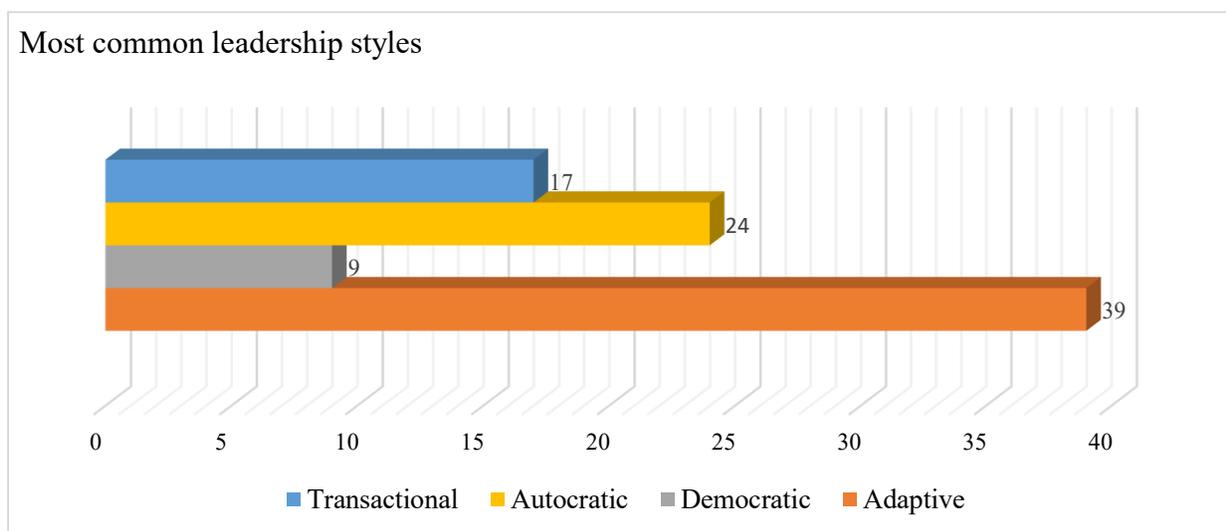


Figure 2: Showing most common leadership style in MFIs during Covid

Figure 2 show that the most prevalent leadership style during the COVID pandemic was adaptive leadership, agreed upon by 43% of the respondents. Adaptive leadership, as advocated by Heifetz, Linsky, and Grashow (2009), is a valuable framework for thriving in difficult situations, and its presence during the pandemic was crucial for organizational adaptability. Flexible leadership styles, such as adaptive leadership, were highlighted by study participants who emphasized the need to avoid rigidity and utilize digital transformation effectively. Some participants also emphasized the importance of focused management, inclusive decision-making, and approachable leadership. The second most common leadership style reported was autocratic leadership, acknowledged by 26% of respondents. However, there was inconclusive evidence on how this leadership style impacted firm performance and employee motivation. Opinions differed between management and employees, with some managers resorting to a more controlling approach. Ray

(2022) supports the effectiveness of autocratic leadership during a crisis, emphasizing the need for command and control.

Transactional leadership was the third most common style, reported by 19% of respondents. This style involved providing COVID allowances, free Wi-Fi, and increased pay for innovative or additional work, which increased commitment and motivation levels among employees. This aligns with previous findings on the impact of contingent rewards on motivation and innovation. However, challenges such as salary delays and inconsistent payment of allowances were mentioned by some respondents, leading to tension and demotivation. Democratic leadership was the least practiced style during the pandemic, with only 12% of respondents confirming its use. The fast-paced decision-making required during the crisis made participatory leadership less essential, as it could cause anxiety among employees. This finding contradicted the positive association between democratic leadership and organizational performance found in a previous study.

Employees were asked if the leadership styles that were used in their organizations impacted on them being receptive of the coping mechanisms and the results in Table 3 show that there was a positive relationship of 0.319.

Table 3: Correlations for employee views on leadership style

	Common leadership style	Leadership style impact on coping mechanisms
Pearson Correlation	1	.319*
Sig. (2-tailed)		.026
N	49	49
Pearson Correlation	.319*	1
Sig. (2-tailed)	.026	
N	49	49

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4: Showing correlations for manager views on effectiveness of their leadership style
Correlations

		Leadership style used	Effectiveness of leadership style
Leadership style used	Pearson Correlation	1	.422**
	Sig. (2-tailed)		.008
	N	40	38
Effectiveness of leadership style on coping mechanisms	Pearson Correlation	.422**	1
	Sig. (2-tailed)	.008	
	N	38	38

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3 shows that employees' acceptance of coping mechanisms was influenced by leadership styles with a positive correlation of .319. Table 4 shows that there is a strong positive correlation of 0.422 between leadership style and effectiveness of the coping mechanisms they implemented. Thus, from both the perspectives of the managers and the employees, leadership style contributed positively to the effectiveness of the coping mechanisms they implemented.

4. The effectiveness of RBZ interventions on operational viability of microfinance institutions during COVID-19.

The Central Bank's role as a stakeholder in the operations of MFIs is crucial due to its regulatory authority. In the study, three interview participants (IP01, IP02, IP03) provided insights on the effectiveness of the Central Bank's interventions during COVID-19. The Reserve Bank of Zimbabwe implemented policy reforms to support troubled MFIs, including Circular No.03-2020/BSD and Microfinance Institutions Lending in Foreign Currency Guideline No.01-2022/BSD. Circular No.03-2020/BSD included measures such as enhancing credit risk management, restructuring existing facilities, strengthening IT systems against cybersecurity risks, and granting license extensions for registration. These measures aimed to ensure the operational viability of MFIs during the pandemic, as highlighted by RBZ (2020) in its role of promoting financial stability and sector growth.

During the COVID-19 pandemic, relief measure 4, which extended the deadline for meeting the minimum capital requirement by microfinance institutions (MFIs) from December 31, 2020, to December 31, 2021, was deemed the most effective among the measures implemented by the Central Bank. This extension provided MFIs with additional time to raise capital, resulting in them

surpassing the minimum threshold by June 2021, as reported by interview participants IP01 and IP02. These findings align with a report by Sokunthea and Chansok (2020) on the Central Bank in Cambodia, which offered MFIs cheaper loans and delayed reserve requirements to support their survival. However, relief measures 1-3 placed the responsibility on MFIs themselves to ensure viability, and as a result, 31 MFIs still faced closure. Study participants expressed the view that the Central Bank could have done more, particularly in providing loans at concessionary interest rates. The Central Bank played a pivotal role in supporting MFIs during the pandemic through policy reforms, with the extension of the minimum capital requirement deadline proving to be particularly effective in ensuring their survival. However, there was a belief among participants that more support could have been provided, specifically in terms of offering concessionary interest rate loans.

The circular issued by the Reserve Bank of Zimbabwe allowed MFIs to lend in USD, with a maximum loan amount of USD 250 for borrowers with sustainable foreign currency income. This measure aimed to mitigate credit risk and loan defaults. The interviewees agreed that this circular positively impacted their revenue base, helping them avoid liquidity and operational risks. However, IP03 expressed concern that the USD250 limit was too low, especially considering their clientele base mainly comprised SMEs. According to IP03, this amount would not have a significant impact. They suggested that the Central Bank should increase the loan limit to better support the survival of SMEs and revive the industry.

Summary, Conclusions and Recommendations

The study aimed to identify the most common pandemic-related risks faced by microfinance institutions (MFIs). The findings revealed that operational risk was the most prevalent, followed by credit risk, liquidity risk, and market risk. Most respondents in the study confirmed that their organizations had the adaptive capacity to deal with these risks. However, the lack of a business continuity plan was identified as a key factor leading to the failure of some MFIs. Additionally, the pandemic worsened the issue of clients' reluctance to adopt digital platforms, limiting the number of loan applications. The reduction in revenue hindered the MFIs' ability to invest in digital platforms to mitigate the risks. Microfinance institutions in Harare had various coping strategies to mitigate risk and these included RBZ intervention, diversification, activated business plan, digital transformation, loan restructuring, downscaling, multi-skilling, mergers and acquisitions.

The coping mechanisms that were implemented by Harare MFIs contributed positively to mitigating the pandemic-related risks. Only the RBZ interventions had adverse effects on pandemic-related risk management by MFIs.

Four types of leadership styles stood out in the microfinance sector. The respondents concurred that adaptive leadership, autocratic, transactional and democratic were the most common leadership styles that were used in their organizations. They also attribute the success of the coping mechanisms they implemented to the leadership style that was used in the organizations. The study found a positive, moderate and significant correlation between leadership styles and effectiveness of the coping strategies that were implemented by leaders in the microfinance sector.

The RBZ put into effect two circulars to mitigate the effects of the pandemic on microfinance institutions. The most effective intervention from the first circular was the one pertaining to the extension of minimum threshold required to get an operating license. Microfinance institutions whose licence were due to expire were granted up to 180 days post expiry date to apply for registration in line with the Microfinance Act. The second circular made it possible for microfinance institutions to provide USD loans, and the advantage was that they were now able to raise capital in USD.

The study's findings indicate that microfinance institutions (MFIs) in Harare possess the necessary resilience and adaptability to effectively manage pandemic-related risks. This resilience is crucial for the long-term viability of MFIs and their ability to provide financial services to low-income individuals. The findings underscore the significance of contingency planning and preparedness for unforeseen events like pandemics. By having the adaptive capacity to navigate such risks, MFIs are better positioned to withstand the impact of crises and continue serving their clients. These findings emphasize the importance of ongoing support for MFIs in Harare, including capacity building and resource access, to maintain their ability to adapt and respond effectively to future challenges. Furthermore, the implications of this study extend beyond Harare, highlighting the importance of adaptive capacity and contingency planning for MFIs in other contexts. This knowledge can inform the development of strategies to bolster MFI resilience in diverse settings.

The finding that coping mechanisms employed by microfinance institutions (MFIs) in Harare effectively mitigated pandemic-related risks provides valuable empirical evidence for risk

management strategies during pandemics. This information can be utilized by MFIs in various contexts to inform their-risk management approaches. The findings underscore the importance of proactive measures in addressing pandemic challenges, enabling MFIs to mitigate the impact on their operations while continuing to serve their clients. Furthermore, the findings support the continued investment in MFIs and their efforts to reduce the impact of pandemics. This includes funding for capacity building and resource access, which can assist MFIs in maintaining their adaptive capacity and effectively responding to future challenges. The study's policy implications highlight the role of MFIs in promoting financial inclusion and the importance of supporting their efforts to address pandemic-related risks. These findings can guide the development of policies and programs aimed at bolstering MFI resilience during times of crisis.

The findings also show the importance of leadership styles in the effectiveness of risk management strategies. MFIs who have leaders that exhibit effective leadership traits are more likely to be successful in reducing the impact of pandemics-related risks on their operations. The finding also underscores the importance of leadership training programs in risk management. Policymakers are also implored to take MFIs' needs and the impact of regulatory measures on their businesses into account to effectively encourage their resilience during times of crisis. This includes taking into account the compliance burden and the availability of resources for Microfinance institutions to implement the measures.

Based on the findings, it is recommended that;

- (i) MFIs in the country should adopt best practices similar to those employed by Harare MFIs, including identifying potential risks, developing contingency plans, and implementing risk mitigation strategies.
- (ii) Policymakers should provide support to MFIs, including funding for capacity building and access to resources, while encouraging collaboration among MFIs and developing programs and policies to promote MFI resilience. Additionally, legislation should be considered to compel MFIs to join associations that advocate for sector interests.
- (iii) There should be an emphasis on leadership development within MFIs, including training programs and opportunities for professional growth to enhance leaders' understanding of risk management and coping strategies.

- (iv) Stakeholder collaboration is crucial, with leaders working closely with clients, employees, RBZ, and suppliers to identify and mitigate risks and promote resilience through open lines of communication and incorporating diverse perspectives into decision-making processes. These recommendations go beyond the MFI sector and could be adopted by other industries as mitigation strategies in face of shocks of a pandemic nature.

Future research could compare Harare MFIs' coping mechanisms to those of MFIs in other regions and countries to identify best practices and areas for improvement. This could include assessing the efficacy of various coping strategies, the importance of leadership, and the influence of regulatory measures. There may also be a need to investigate the lack of representation of women in leadership positions. Research could look into the role of gender in microfinance leadership during times of crisis. This could include examining the impact of gender on leadership styles as well as the impact of gender on microfinances' ability to deal with pandemic-related risks.

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