FACTORS INFLUENCING COMPETITIVE ADVANTAGE OF FIRMS IN THE MICRO FINANCE INDUSTRY IN KENYA

BY

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DECLARATION

This is to declare that this research project is my original work that has not been presented to any other University or Institution of Higher Learning for examination.

Signed: _______________________________ Date: _______________

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D61/61577/2010

This is to declare that this project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

My study is dedicated to my beloved Son Roy Muchina Mwangi who stood by me and prayed for me tirelessly during my absence to do my studies and to research for this project. Thank you for the great understanding and patience.

May the Lord God, bless you abundantly.

ACKNOWLEDGEMENT

I am grateful to the Almighty God for his provisions. His grace, mercy and favor for me are new every day.

Special thanks go to my supervisor, Professor. M.Ogutu, who patiently and selflessly guided me throughout the entire process at times even on very short notice. My appreciations also go to all the people from various Micro Finance Institutions who responded to my research questions. I also owe much gratitude to my fellow students, Abed Gatimu and Atanas Mwangi for their contribution and support during my studies.

Finally, am thankful to my son Roy Muchina for your support and understanding throughout my academic journey.

May God grant you favour.

ABSTRACT

Competition is a universal social process that exists in all types of societies either civilized or uncivilized. This may in form of service or goods offered to their customers. Competitive advantage is a superiority that gives an organization an edge over its rivals and an ability to generate greater value for the firm and its shareholders. It occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. This study set out to address two objectives which were to establish the types of competitive advantages enjoyed by firms in the micro finance industry and to determine factors influencing the competitive advantage of firms in the micro finance industry. To achieve this objective the study made use primary data only collected through questionnaires sent to 37 Micro Finance companies. The study recommended that it is important for the Mfis to evaluate to what extent it uses the competitive advantages to compete with others in the industry.The study suggested that a further research is necessary on the implementation of competitive advantages strategies since this research only considered the extent it is used by MFIs and the factors influencing it.The study concluded that that Marketing strategy, networks effects ,strong research and development capabilities,Cost leadership and redefining customer value were used by many MFIs as competitive strategies. It was also concluded that being a low cost provider,use of technology, support structures Risk, Service offered,quality,location,an embedded customer base and innovation have atleast more than moderate influence in the competetitive advantage.

TABLE OF CONTENTS

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

ABBREVIATIONS

AMFI	Association of Micro Finance Institutions
CBK	Central Bank of Kenya
DTMS	Deposit Taking Microfinances
MFIS	Micro Finance Institutions
NGOS	Non Governmental Organizations

List of Tables

APPENDIX 1 QUESTIONNAIRE

Please tick where appropriate

SECTION 1: GENERAL INFORMATION

1. What is your position in the firm ………………………………………………
2. How long have you been with the firm……………………………………………
3. Age of firm?

- Less than I year
- 1-3 years
- 4-5 years
- More than five years

4. Number of employees in the MFI

- Permanent……………………………..
- Casual………………………………….
- Volunteers………………………………

5. In which of the following category is Your MFI?

i. Deposit Taking
ii. Retail Lenders
iii. Wholesale Lenders
iv. Banks
v. Insurance Companies
vi. Development Organizations

SECTION 2(a): To what extent does your firm have each of the following competitive advantages? Use a 5-Point Scale, where 1= Not at all, 2=Little extent,3=Moderate extent,4=Great Extent and 5= Very great extent(Tick in the appropriate column)

Table 2.

Competitive Advantage	1	2	3	4	5
A cost leader					
Unique Product					
Strong research and development capabilities					
Holding an intellectual right					
Network effects					
Monopoly					
Marketing Strategy					
Holding exclusive re-selling or distribution rights					
High Switching costs					
Redefining customer value					
Total					

Source (Researcher 2012)

SECTION 2(b): Other types of competitive advantages in the firm not in the list above (Kindly add below**).**

a) ________________________________

b) ________________________________

c) ________________________________

d) ________________________________

<u>SECTION 3(a)</u>: To what extent is your firm's competitive advantage influenced by each of the following factors? Use a 5-Point Scale, where 1= Not at all, 2=Little extent,3=Moderate extent,4=Great Extent and 5= Very great extent(Tick in the appropriate column)

Table 3.

Factors influencing competitive advantage	1	2	3	4	5
Being the low cost provider					
Service offered					
Quality					
Location					
An embedded customer base					
Innovation					
Technology					
Leadership					
Support structures					
Risk					
Total					

Source (Researcher 2012)

SECTION 3(b): Other factors that influence competitive advantages in the firm not in the list above (Kindly add below**).**

a) ______________________________

b) ______________________________

c) ______________________________

d) ______________________________

Appendix II
List of Micro Finance firms in Kenya

1. Deposit Taking Micro finance institutions (DTMs)

1. Faulu Kenya DTM Ltd
2. KWFT DTM Ltd
3. Rafiki TM Ltd
4. REMU DTM Ltd
5. SMEP DTM Ltd

2. Retail Lenders

1. AAR Credit Services Ltd
2. ADOK TIMO
3. Agakhan Foundation Microcredit Programme
4. Biashara factors
5. BIMAS
6. Blue Ltd
7. Canyon Rural Credit Ltd
8. Eclof Kenya
9. Fusion Capital Ltd
10. Greenland Fedha Ltd
11. Jitegemea Credit Scheme
12. Juhudi Kilimo Co. Ltd
13. KADET
14. Kenya Women Holding Ltd
15. Kilimo Faida Ltd
16. K-Rep development Agency
17. Micro Africa Ltd
18. Molyn Credit Ltd
19. Muramati SACCO
20. Musoni Kenya Ltd
21. One Africa Capital Ltd
22. Opportunity Kenya
23. Pamoja Women Development Programme Office
24. Platinum Credit Ltd
25. RETAP
26. Rupia Ltd
27. Select Management Services Ltd
28. SISDO
29. Sumac Credit Ltd
30. Taifa Option Micro Finance
31. U & I Micro Finance Ltd
32. Women Enterprise Fund

33. Yehu Microfinance Trust
34. Youth Initiative Kenya (YIKE)

3. Wholesale lenders

1. Jitegemee Trust Ltd
2. MESPT
3. Oikocredit

4. Banks

1. Cooperative Bank of Kenya
2. Equity Bank Ltd
3. Jamii Bora Bank
4. K-rep Bank Ltd
5. Post Office Savings bank

5. Insurance companies

1. Chartis Kenya Insurance Co. Ltd
2. Cooperative Insurance Ltd (CIC)
3. Micro Insure Advisory Services Ltd

6. **Development Organizations**

1. Swiss Contact

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Firm's competitiveness is the ability and performance of a firm to sell and supply goods and services in a given market capturing the awareness of both the limitations and challenges posed by firm's competition for the scarce resources. A firm is said to be competitive when it delivers products or services at a lower cost or higher quality than that of its competitors, or when it has unique characteristics that cannot easily be replicated elsewhere. Firm's competitiveness inspires firms to excel and exceed expectations. If a company is competing with another company, they will produce more quality products at unbeatable prices.How a firm is organized and how it uses its resources and capabilities to create unique, better or lower cost products or services determines its ability to develop a competitive advantage, become an industry leader and create excellent value for its customers and higher profits for itself.

Microfinance operates in a highly competitive environment which has other players who give the same financial services to the same clientele. Other players include banks, Savings credit and Cooperative Societies (SACCOS), Rotating savings and credit Associations (ROSCAS) and merry go round Chama's. Competition can be health meaning it leads to growth and can be hazardous to business leading to their collapse. It is therefore important for the firms to carry out industry analysis to determine the degree of competition in place. Michael porter in this book Competitive Advantage suggests that the degree of competition in an industry depends on the behavior of five forces analysis which include; threats of new entrants, threats of substitute products, bargaining power of customers, bargaining power of suppliers and rivalry within the industry.

1.1.1 Competitive Advantage

Competitive advantage is defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Competitive advantage is what enables a business organization to thrive. The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen and Fahey, 1984). The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter, 1980). A firm has a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors (Barney, 1991).

Competitive advantage is a superiority that gives an organization an edge over its rivals and an ability to generate greater value for the firm and its shareholders. It occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. Competitive advantage enables a firm to create superior value for its customers and superior profits for itself. Large firms have traditionally commanded a competitive advantage over small firms. This is because large firms use substantial resources to conduct extensive market research, mount powerful advertising campaigns, place their products in readily accessible outlets and dominate selected markets with their products (Hambrick, 1982). Firm level competitiveness can be defined as the ability of the firm to design, produce and market products superior to those offered by competitors, considering the price and non-price qualities (D'Cruz, 1992).

Porter (1980) identified two basic forms of competitive advantage namely Cost advantage and differentiation advantage. A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (Cost Advantage) or deliver benefits that exceeds those of competing products (differentiation advantage).These two advantages are known as positional advantages since they describe the firm's position in the industry as a leader is either cost or differentiation (Porter, 1991). Change Leadership as a Core Organizational Competency is also a form of competitive advantage. The companies that survive in the coming decades will be those that are able to respond quickly and effectively to changing environmental conditions. This puts a premium on certain capabilities, adaptiveness, flexibility, and responsiveness. Another form of competitive advantage is Competitive Advantages for Pioneers where pioneering products have the first chance to become the trusted brand.

All competitive advantages are dynamic and dependent on a specific set of market and environmental conditions (Christensen, 2001). A firm's competitive advantage is influenced by internal factors and external factors. Internal factors include financial ability, human resources, research collaborations, marketing, product differentiation and cost. External factors that influence a firm's competitive advantage include political factor, economic, social, and technical and culture. Other factors that can influence competitive advantage are Quality and Quantity of natural resources, Strength of country's currency, Infrastructure in a country, Research and development, Workforce Characteristics, Entrepreneurship and Government involvement. Porter's (1985) states that a business can maximize competitiveness either by striving to be the low cost producer in an industry and by differentiating its line of products or services from those businesses.

1.1.2 Microfinance Industry in Kenya

Microfinance is the provision of financial services to low-income individuals and households as well as micro, small and medium enterprises using specially designed methodologies that will ensure sustainability for the lenders and lead to improvement in the standard of life for the consumers. This provides an enormous potential to support the economic activities of the low income people and thus contributes to poverty alleviation. Microfinance refers to the small-scale financial services that involve mainly credit and savings services to the poor (Robinson 2001).

The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. According to AMFI 2010 report there are 51 formal Microfinance institutions (Mfis) with 5 Regulated as Deposit taking Mfis (DTMS), 5 banks offering microfinance services, 3 Wholesalers advancing loans to other Mfis, 3 Insurance companies offering Insurance to Microfinance and 34 Retailing Mfis. The exact number of the informal Mfis is however hard to determine due to its diversity and complete regulation platform which includes all Microfinance service providers. The business takes different forms raging from those who are regulated as deposit taking MFIs, those registered as Non-governmental organizations, Church based, Merry go round (Chama's), Rotating savings and credit associations (ROSCAS) and investments groups. All these groups came in to bridge the gap created by main stream banks. Currently, they serve over 10Million clientele according to the Association of Microfinance Institutions` (AMFI) data 2010. 98% of the formal microfinance adopts the lending model of Groups Based invented by the Laurent Nobel prize winner in 2006 Professor M. Yunus which has seen many organizations grow and improve the living standards of the poorest units in the society. Their success stories and contributions to both social and economic factors has made the industry become an icon in the country hence many parties have drawn their focus to it.

International investors are keen with the industry especially after the Africa and Middle East Microcredit Summit 2010 held in Kenya which attracted 2000 global delegates from all Microfinance practitioners and partners. The Economic Pillar of Kenya's Vision 2030 objective of enhancing deposit mobilization, increasing savings levels and improving the general quality of life for all citizens, has seen the government introduce regulations through the microfinance act 2006 which were aimed to tame unfair and unfaithful players in the industry. During the 14^{th} Annual Africa middle East Micro credit summit held in April 2010 in Nairobi- Kenya, Yunus in his presentation entitled Financial Services for Poor, emphasized that "Microfinance continues to flourish, providing opportunities for people in the developing world to lift themselves from poverty".

Stringent regulations are making it hard for Central Bank of Kenya (CBK) licensed micro finance institutions to operate profitably, a new research has found. The survey by Financial Sector Deepening (FSD) states that the conversion from a credit microfinance institution to a CBK-licensed, deposit taking micro lender is a costly venture that is made even more expensive by elaborate regulatory requirements.“The current CBK requirements, especially with regard to branch security and prudential ratios, are not adapted to the microfinance business in Kenya. To encourage other organizations which are performing well to transform, a review of actual risks for DTMs would be necessary to lower some of the requirements and therefore costs,” reads the FSD report.

The challenges facing Microfinance Institutions are limited capacity of the Microfinance Institutions in terms of staffing, management and financial gap in the funding needs to meet the growing demand, due to the continued success and rapid growth of microfinance. Competition has increased in the microfinance industry as new entrants join the industry. Since 1980’s the microfinance industry has seen many firms collapse and exit from the industry due to threats posed by the external environment and also due to internal weaknesses of the firms, examples of companies that exited the industry include Rural and Urban finance limited. At the same time the industry has evidence of firms like Faulu DTM limited, Kenya Women Finance Trust Limited, and Equity Bank limited have grown from small companies to huge industry players. The commercial banks have also presented competition in form of products which are designed for the same market.

1.2 **Research Problem**

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Successfully growing a business is often dependent upon a strong competitive edge that gradually builds a core of loyal customers, which can be expanded over time. There are niche markets in which both individual and wholesale buyers are looking for products with very specific characteristics or special services. These characteristics often use strategies that don't focus on costs and volumes exclusively rather the product or service may be of premium quality, be differentiated from other products and services available in the market. Competitive advantage can come in one or combination of the following factors: Price, service, quality, location, or imbedded customer base. The better your business performs against one of these factors, the more likely you are to succeed.

Traditionally, banks have not provided financial services, such as loans to clients with little or no cash income. The challenge in transformation is not in meeting the regulatory capital requirements, but in realizing the related costs to comply with the non-capital requirements. "Most institutions are not able to meet those requirements because of cost; you can't transform without Sh10 million and for most institutions their capital base is less than Sh50 million," said Association of Microfinance Institutions (AMFI) CEO, Benjamin Nkungi. Irrespective of the challenges most firms in the micro finance industry are profitable due to keenness on factors that influence these firms to remain competitive. There is serious knowledge gap in this area of competitive advantage on the factors that influence the competitive advantage in different industries. The main concern is the Micro Finance industry which is growing at a very high rate irrespective of the challenges surrounding it. What are the factors influencing competitive advantage of firms in the micro finance industry? What competitive advantages are enjoyed by firms in the Micro finance industry in Kenya?

1.3 Research Objectives

This study will have two research objectives which are:

i. To establish the types of competitive advantages enjoyed by firms in the micro finance industry
ii. To determine factors influencing the competitive advantage of firms in the micro finance industry.

1.4 Value of the study

According to a study done in 2002, there were a very few MFIs which had attained financial sustainability as a result of their sound financial cost control and provision of quality portfolios. However, a number of MFIs had not attained financial sustainability and were relying on subsidies from donors.

This research will create value in terms of contribution to knowledge on how the micro finance industry in Kenya is growing at an alarming rate irrespective of the challenges facing the same industry. Most of the MFIs are currently financially stable due to their introduction of attractive loan products and good management. Thus the players in this industry will gain knowledge on how to remain competitive and increase profitability.

This study will add value to scholars for purposes of other research. Most Scholars in the developing countries are keen on the happenings and growth of the micro finance industry and how the same is contributing to the growth of a county as a whole.

This study will give guidance to other researchers on the current happening of the micro finance industry that is faced with a lot of competition from commercial banks and informal credit offering organizations. Irrespective of the competition the firms in this industry are still profitable due to then taking advantage of factors influencing competitive advantage of firms in the microfinance industry in Kenya. This research will be of great value to already existing firms in the Microfinance industry on knowledge on factors that influence competitive advantage in this industry in Kenya.

Many researchers have done researched on competitive advantage. For example (Dulo,2006) research on the sources of competitive advantage & the performance of firms in the Kenya sugar industry (Kibiru,1998) achieving competitive advantage through differentiation of market offering the case of chemical fertilizers importing companies in Kenya(Njoroge,2006) research on building competitive advantage through diversification a case study of kenol/kobil oil corporation (Kirui,2001) research on competitive advantage through outsourcing of non core logistics activities within the supply chain of British American tobacco Kenya; and many others but no research has ever been done on factors influencing competitive advantage of firms in the microfinance industry in Kenya

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter explains concept of competition and the concept of competitive advantage. It outlines different sources of competitive advantage and the various factors that influence competitive advantage. This chapter will review books, journals and other sources to unveil the various theories that have been advanced on competition and competitive advantage.

2.2 Concept of competition

Competition in an industry is rooted in its underlying economic structure and goes beyond the behavior of current competitors. The nature and degree of competition in an industry depends on competitive forces from its environment. The state of competition in an industry depends on the collective strength of these forces. The collective strengths of these forces ultimately determine the attractiveness of the profit potential of the industry where profit potential is measured in terms of long run return o investment capital.

The key structural features of industries therefore determines the strengths of competitive forces and hence industry profitability. Whatever their collective strength, the organizations' goal is to find position in the industry where it can best defend itself against these forces or can influence them in its favor (Porter,1998).To cope with them, the strategist must analyze the sources of competition to find out what makes the industry vulnerable to those forces. Knowledge of these underlying sources of competitive pressure provides the groundwork for a strategic agenda of action.

Competition in an industry continually works to drive down the rate of return on invested capital toward the competitive floor of rate of return or the return that would be earned by the economists “perfectly competitive” industry. One of the environmental influences to a business arises from competition. Increased competition threatens the attractiveness of an industry by reducing the profitability of the players. It exerts pressure on firms to be pro-active and to formulate successful strategies that facilitate proactive resource to anticipated and actual changes in the competitive environment. By identifying their core competencies, firms are able to concentrate on areas that give them a lead over competitors and provide a competitive advantage. Porter (1987) observes that a competition is the core of the success or failure of a firm.

For nearly two decades, the dominant research paradigm has been Porter's (1980) competitive forces model which argues that the intensity of competition determines the profit potential for individual firms. Porter contends that a firm seeks a position in an attractive market that they can defend against both existing and potential competitors.

There is great increase of Micro Finance firms in the country and this has brought about stiff competition. Competition has forced micro finance firms to become more innovative in creation of their different products.

2.3 Concept of competitive advantage

The competitive advantage concept refers to set of factors or capabilities that allows firms to consistently outperform their rivals(Roberts,2002) .Competitive advantage is an edge over competitors gained by offering greater value either by means of lower prices or by providing greater benefits and service that justify higher prices (Wikipedia 2009). A company has competitive advantage whenever it has an edge over its rival in securing customer and defending against competitive forces (Thompson and Strickland, 2002).Barne (2001) suggests that a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. He added that for competitive advantage to have meaning, customers must perceive a difference between one firm's products or and those of competitors resulting from a capability gap between the firm and its competitors and theses afore mentioned difference in attributes and capability gap are expected to endure overtime.

Porter (1987) notes that competitive advantage exist where the firm is able to deliver the same benefits as competitors but at a lower cost and therefore gaining competitive advantage or derive superior benefits that exceed those of competing products and hence gain differentiation advantage and focus on small market segment which it can serve better than competitors and hence acquire focus advantage. He noted that the primary factors of competitive advantage are innovation, reputation and relationships. He further argues that competitive advantage comes from the value that organizations create for their customers that exceed the cost of producing it.

A competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. Hitt (1997) urges that the resources based view of competitive advantage assumes that each firm is a collection of unique resources and capabilities. These resources and capabilities are source of organizations strategy and competitive advantage. He further states that superior value is earned when an organization uses its core competencies to establish competitive advantage over rivals.

Sustainable competitive advantage is born out of the core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) defined core competencies as an area of specialized expertise that is the result of harmonizing complex streams of technology and wok activity. They further explain that a core competence has three characteristics first it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for a competitors to imitate. To succeed in building competitive advantage a firm must try to provide what buyers will and perceive as superior value. This entails either a good quality product or a lower price or a better quality product that is worth paying more.

2.4 Sources of competitive advantage

According to Hitt (1997) a sustainable competitive advantage is achieved when firms implement a value creating-strategy that is grounded in their own unique resources, capabilities, and core competencies. This is based on the resource based model which suggests that the unique resources and capabilities of a firm’s internal environment are the critical link to strategic competitiveness. Firms achieve strategic competitiveness and earn above-average returns when unique competencies are leveraged effectively to take advantage of the opportunity of the external environment.

If a firm lowers the cost of your product or service without compromising profitability then you have a cost advantage over your competitors. In the cost reduction strategy, firms typically attempt to gain competitive advantage by being the lowest cost producer (Schuler and Jackson, 1987). Porter (1985) argues that cost advantage will result in above average performance only if the firm can sustain it. Improving relative cost position in unsustainable ways may allow a firm to maintain cost parity or proximity, but a firm attempting to achieve cost leadership must also develop sustainable sources of cost advantage.

A firm can gain a strong competitive advantage in its industry if it has strong research and development capabilities. Strong research and development reflects in the company products development processes. Firms with strong research capabilities often lead the market with innovation (McGee, 2002).

Another source of competitive advantage a business can exploit is the holding of an intellectual right which can exist in form of trademarks, trade names, copyright, patents, company reputation and brand. For firms today, the strength and marketing power of an Institution's brand is rapidly becoming one of the critical levers for differentiation and success. Chandler & Hank suggest that a firm should use capabilities based on the resources like brand names and reputation in order to gain and keep competitive advantages (Chandler & Hanks, 1994).These give a business a competitive edge.

Network effects or network externality refers to how easy is it for new customers to adapt to your product or service. If a firm’s product is good, easy to use or your service is excellent then more customers will come to you. When Microsoft Windows came out it was so easy to use than the regular DOS or text based programs. So people have grown a liking to it and have recommended it to more people and those people recommended it to more people so on and so on... Another good example is face book. When a lot of people use a particular product or service, the product or service becomes more valuable and thus increase in value thus creating competitive advantage.

Some businesses have gained competitive advantage because the entry in their industry has been limited by surrounding circumstances. This is having barriers to entry or monopoly because there is government restriction on entry. This can be achieved by having such as important attributes of the firm as rareness, value, inability to be imitated, and inability to be substituted (Barney, 1991).The central bank has put barriers for conversion on Micro Finances to Deposit Taking Institutions due Stringent regulations set like high capital required.

In the market place, the company with the best marketing strategy wins. The competition to gain a stronger competitive advantage in the market place is the reason why giant corporations spend millions of money on the marketing research and advertising annually **(**Ajaero, 2010) article on sources of sustainable competitive advantage. A firm can also use Loyalty Mechanisms for marketing through frequent flier miles, coupons, or other membership bonuses so as to lock customers.

Holding exclusive re-selling or distribution rights is a great source of competitive advantage. When a company holds exclusive rights to a product within a given territory, that product can only be sourced from the distributor or holder of such rights **(**Ajaero, 2010) article on sources of sustainable competitive advantage.

High Switching costs are the penalties a customer pays when they change from an existing product, supplier or brand to another. These penalties or negative utility are often monetary, but can also come in the form of time, effort, or social pressure. This dynamic is especially useful in competitive markets where there is little differentiation amongst options and creating incentives for customers to stay with you is essential for survival. According to (Rishi, 2010) a firm can create switching costs through transaction costs where the incumbents levy penalties for switching such as bank account closure fees. Another way is quality uncertainty where the familiarity with the existing product creates fear, uncertainty, or doubt in the quality of the new brand. Switching cost creates an advantage to your business so that you retain customers because it would cost them some time or money to switch to another product or service. So when your customers stay with you this means more money is coming in.

Redefining customer value is going beyond planning, to delivering good customer satisfaction levels across all the customer segments. It involves assessing customers' perceived values and their relative importance and determining how best a firm should position itself to deliver services that match customers' perceived value in order to gain a competitive edge(MCgee,2002).To redefine customer value, a firm needs to profile customers, identify value elements, spot high value customers and also develop delivery strategies. Firms that continuously realign their business strategies in line with the emerging customer needs may not only retain their existing customers, but also gain unique competitive advantages in the industry. This is according to KPMG 2010 Banking Survey report. Any company that has the capital to quickly respond to customer needs and provide subsequent support will have a competitive advantage over competitors.

2.5 Factors influencing competitive advantage

The Micro Finance industry has grown tremendously in Kenya resulting to fierce competition and all the Micro Finance firms are always changing their strategies to stay ahead of the game. Thus there is need to analyze factors that influence the competitive advantage in organizations within the Micro Finance Industry in Kenya .The factors analyzed below are Price, service provision, quality, location, imbedded customer base, product innovation, technology and leadership. The better your business performs against one of these factors, the more likely you are to succeed

Being the low cost provider of a good or service can be a quick path to gaining more business or market share than your competitors. Porter (1985) emphasized competitiveness at the level of a firm in terms of competitive strategies such as low cost and/or product differentiation. But this strategy has serious risks. Certainly a firm will need a lower labor, materials or overhead cost. Even then a firm may find that your competitors are willing to cut prices in response. So if the firm down this path it would be better to be certain that it truly does have lower costs.

Service can also be serious differentiator and competitive advantage. If a firm can respond quicker, get it done quicker, or get there sooner, the customers may prefer that firm over less nimble competitors even though the cost more. In a study made in the pharmaceutical industry it was found the primary sources of competitive advantage were: their level of customer service, the ability to effectively handle customer complaints, and the quality of their products (McGee, 2002).

Quality is important in almost every industry. In a study made in the pharmaceutical industry it was found the primary source of competitive advantage was the quality of their products (McGee,2002).People do not like to pay good money for work that has to soon be redone or have to purchase a new unit that fails prematurely. In certain instances quality is not all that important, and in other instances quality is the only important consideration. Most products are somewhere in between and the astute business person will seek to produce the highest quality within his means. Over the long term producing higher quality is almost always less expensive as you don't have to deal with as many returns, or as much scrap, or rework.

Location can also be a competitive differentiator. If the location of your services or the office is prime or easily accessible, clients will tend to seek your services for convenience purposes. If your distant service competitors charge for travel time, other things being equal, you can charge more money but not so much more that it pays the customer to use your competitor. Currently customers are keen on the availability of car parking spaces or the distance from the office to a main road for clients using public means.

An embedded customer base can also be a competitive advantage. A firm can be a little more costly, or even a little slower but because most people hate change, the prospect of needing to invest the time and energy to build the necessary trust with one of the firm's competitors can be a real deterrent. This is why an individual can stick to a micro finance whose interest rates are high due to the relationship developed over time (McGee, 2002).

Innovation is one of the important tools for enterprises to keep their competitive advantage (Kimberly & Evanisko, 1981; Damanpour & Evan, 1984). The survival of an enterprise depends on how to improve their technological innovation capability. Based on reform processes and intensified competition, companies search for emergent innovation models to gain competitive advantage and to increase their performance. The implementation of such new models requires decisions on strategy and execution from the company's management (Porter, 1996). Strategy is about performing different activities from those of rival companies or performing similar activities in different ways. Strategy always involves risk, because there's uncertainty about consumer behavior, competition, and technological change (Rosenzweig, 2007).

Technology is a key factor that influences competitive advantage. The concept of knowledge management concerns creation of structures that combine the most advanced elements of technology resources and the indispensable input of human response and decision making (Raisinghani, 2000). The technological change can create new possibilities for the design of a product, the way of commercialization, produce it or deliver it and the subsequent auxiliary provided services. New sectors are born when this technological change makes a new product feasible (Porter, 1990)

Leadership is the necessary condition for long-term competitiveness. In particular in the knowledge economy, what is proving to be most effective is the emerging style of values-based leadership, both as motivation for constant innovation up and down all organization levels and as a source of unity and coherence across fragmented firm boundaries. Harnessing the abilities to lead through the power of intellect will, persistence and vision create synergies that propel successful micro finance firms in the quest for and achievement of competitive advantage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an explanation of the research designs, methodology and justification for using this research design. It has also described the characteristics of the population which was used and focused on the on the sampling designs and procedures, data collection instruments and the procedure of data collection and finally appropriate data analysis techniques that will generate the data.

3.2 Research Design

A research design refers to a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision or so that hypothesis or research questions can be tested properly (Henon, 2001). The function of research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. Obtaining relevant evidence entails specifying the type of evidence needed to answer the research question, to test a theory, to evaluate a programme or to accurately describe some phenomenon.

This study adopted a descriptive survey design. Kotler and Armstrong (2000) observed that this method is best suited for gathering descriptive information where the researcher wants to describe the state of affairs as they existed. The design of this research is a descriptive survey of various Micro finance firms in the Kenya industry. The study involved a descriptive survey of the types of competitive advantages enjoyed by various firms in the micro finance industry and also determined factors influencing the competitive advantage of firms in the micro finance industry.

3.3 Population of the study

There are fifty three (51) Micro Finance firms in Kenya according to the Association of Microfinance Institutions` (AMFI) data 2010(See Appendix II).All the fifty one Micro Finance firms in Kenya were studied.

3.4 Sample design

A disproportionate stratified random sampling was used and a sample of 37 respondents was picked at random comprising of 5 DTMs,20 retail lenders,3 wholesale lenders,5 banks 3 insurance company and 1 Development organization for this survey. A stratified sampling procedure was preferred since it assures the researcher that the sample is representative of the population in terms of the factors that were used for stratification.

Table 1. Population sample of the Study

MFIs	Total MFIs Population	Sample Size
DTMs	5	5
Retail Lenders	34	20
Wholesale Lenders	3	3
Banks	5	5
Insurance Companies	3	3
Development Organizations	1	1
Total	51	37

Source (Researcher 2012)

3.5 Data Collection

This study relied on primary data. Primary data was collected through semi structured questionnaire which was both closed and open ended (see appendix 1). The questionnaire was organized into three sections, with the first section covering basic information of the respondents and the respective Micro finance firm. The second sections covered the types of competitive advantages enjoyed by the firms in the micro finance industry and the third section covered factors influencing the competitive advantage of firms in the micro finance industry. The structure of the questionnaire was guided by this study's research objectives.

The respondent was either the company's Chief Executive Officer or the Finance Director .The semi structured questionnaire was administered by the researcher. According to Zikmund (2003) primary data refers to data gathered and assembled specifically for the research project at hand.

3.6 Data Analysis

Descriptive statistics enable the researcher to summarize and organize data in an effective and meaningful way. They provide tools for describing collections of statistical observations and reducing information to an understandable form. (Nachmias & Nachmias, 1996) defines content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate trends.

This study used descriptive statistics to analyze the data. Data collected from the study was qualitative data. Primary data obtained from the various companies Chief Executive officers or Finance Directors was analyzed using spreadsheets and other computer tools available. The data was tabulated from the data collection forms and the researcher computed mean scores and standard deviation of the qualitative information collected using five point scales.

According to Mugenda (1999), descriptive statistics enabled meaningful description of a distribution of scores or measurements using a few indices or statistics.

CHAPTER FOUR: DATA ANAYSIS, INTERPRETATIONS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis and interpretations of the findings on what extent the MFIs use competitive advantage and to what extent does each given independent variables influence the competitive advantages all presented in a five point scale. The chapter covers the demographic background of Micro Finance firms, competitive advantages of firms, factors influencing competitive advantage and discussion of the finding

4.2 Demographic background of Micro Finance firms

4.2.1 Size of firms

The research wanted to establish the size of the firms and used the number of employees to measure the same. The lowest range was less than 10 employees and the highest range was more than 200 employees as per the table below.

Table 2: Number of employees

Number of employees	Frequency	Percentage
Less than 10 employees	2	6%
10-50 employees	8	24%
50-100 employees	7	21%
100-150 employees	6	18%
150-200 employees	5	15%
More than 200 employees	6	18%
Total	34	100%

Source (Researcher 2012)

4.2.2 Age of the firm

The research wanted to establish the age of the firms and used the number of years in existence to measure the same. The lowest range was less than 1 year in existence and the highest range was more than 5 years in existence as per the table below.

Table 3: Number of years in existence

Number of years in existence	Frequency	Percentage
Less than 1 year	1	3%
1-3 years	4	12%
3-5 years	7	21%
More than 5 years	22	65%
Total	34	100%

Source (Researcher 2012)

4.3 Types of competitive advantages enjoyed by firms

The research objective was to establish the types of competitive advantages enjoyed by firms in the micro finance industry. The respondent were to determine to what extent the Micro Finance firm had the following types competitive advantages using a 5-Point Scale.1 represented not at all,2 little extent,3 moderate extent,4 great extent and 5 very great extent as per the table below.

Table 4: Competitive Advantages enjoyed by Micro Finance firms

Competitive Advantage	Mean	Standard Deviation
A cost leader	3.1	3.3
Unique Product	3.9	4.1
Strong research and development capabilities	4.1	4.4
Holding an intellectual right	2.5	2.7
Network effects	4.5	4.8
Monopoly	1.5	1.6
Marketing Strategy	4.8	5.1
Holding exclusive re-selling or distribution rights	1.8	1.9
High Switching costs	2.2	2.3
Redefining customer value	3.8	4.0
Grand Mean	3.2	

Source (Researcher 2012)

From the table above, the grand mean score was 3.2.This means the outlined types of competitive advantages were not highly enjoyed by the Micro finance firms. Marketing strategy, network effects and strong research and development capabilities were most enjoyed types of competitive advantages to a great extent. The least enjoyed types competitive advantages were monopoly and holding exclusive re-selling or distribution rights.

4.4 Factors influencing Competitive advantages in firms

The research objective was to determine factors influencing the competitive advantage of firms in the micro finance industry. The respondent were to determine to what extent the

Micro Finance firm's competitive advantage influenced by the following factors using a 5-Point Scale. 1 represented not at all,2 little extent,3 moderate extent,4 great extent and 5 very great extent as per the table below.

Table 5: Factors influencing Competitive advantages

Factors influencing competitive advantage	Mean	Standard Deviation
Being the low cost provider	3.4	2.4
Service offered	4.7	3.4
Quality	4.8	3.4
Location	2.1	1.5
An embedded customer base	3.6	2.6
Innovation	4.5	3.2
Technology	3.8	2.7
Leadership	4.9	3.5
Support structures	3.1	2.2
Risk	3.2	2.3
Grand Mean	3.8	

Source (Researcher 2012)

From the table above, the grand mean score was 3.8.This means the outlined factors that influence competitive advantages were not highly considered by the Micro finance firms. Leadership, quality service offered and innovation were the key factors that influenced competitive advantages to a great extent. The least factor that influenced competitive advantages of firms in the micro financed industry at little extent was location.

4.5 Discussion of findings

This chapter presented research findings on the types of competitive advantages enjoyed by firms in the Micro Finance industry and the factors influencing the competitive advantages of firms in the micro finance industry. This was based 34 respondents who were either the Chief Executive Officer or a Finance director of the firm. Mean as a measure of Central tendency was used for the purpose of the analysis. Out of the ten types of competitive advantages enjoyed by the Micro Finance firms researched on, marketing Strategy was the most enjoyed competitive advantage. Monopoly was the list enjoyed type of competitive advantage. The finding was consistent to Day (1984) findings under his research on Strategic market planning in pursuit of competitive advantage. He concluded that marketing strategy was a key type of competitive advantage enjoyed in most industries.

Out of the ten factors influencing the competitive advantages of firms in the Micro finance industry, leadership was the most influential factor while location was the least influential factor. The finding was contrary to (Njoroge,2006) research on building competitive advantage through diversification a case study of kenol/kobil oil corporation who concluded that diversification is a major factor that influences competitive advantage.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discussed the findings of the study and presented conclusions drawn from the research findings in view of the literature earlier reviewed. The purposes of the study as well as the research objectives were revisited and the findings discussed with reference to the research objectives. Recommendations for practice, its limitations and further research suggestions were also presented.

5.2 Summary of the findings

The purpose of the study was to establish the types of competitive advantages enjoyed by firms in the micro finance industry and also to determine factors influencing the competitive advantage of firms in the micro finance industry. The background information established that there was a lot of competition in all the institution that offered credit services but at the same time the micro finance industry was growing at a high rate. So there was great need to study competitiveness of firms in the Micro Finance industry.

The study adopted a descriptive research design in which a sample of thirty seven Micro finance firms was selected using random stratified sampling to participate in the research. A structured questionnaire comprising of questions developed by the researcher were administered to the sampled Micro finance firms' respondents. Mean as a central tendency measure was used for analysis purposes. The results were then presented using tables.

The study revealed that marketing strategy, network effects and strong research and development capabilities were used at a very great extent as types of competitive adavantage. The least enjoyed types competitive advantages were monopoly and holding exclusive re-selling or distribution rights. It also revealed that Leadership, quality service offered and innovation were the key factors that influenced competitive advantages to a great extent in the Micro finance industry. The least factor that influenced competitive advantages of firms in the micro financed industry at little extent was location.

5.3 Conclusion of the Study

Based on the research findings and answers to research questions, the researcher made the conclusion that Marketing strategy, networks effects,strong research and development capabilities,leadership,quality service offered and innovation were used by many MFIs as competitive strategies.

It was concluded that monopoly and holding exclusive re-selling or distribution rights are the least types of competitive advantage that do not affect the firms competitiveness and location had the list influence of the micro finance firms competitiveness.

5.4 Recommendations of policy and practice

It is important for the Mfis to evaluate to what extent it uses the competitive advantages to compete with others in the industry.All the types of competitive advantages which had moderate, Great and very great extent should be adopted by MFIs to enjoy a competitive edge.

MFIs should understand all the factors that influence the competitive advantage and address all these issues especially the ones which have Moderate,Great and very great influence to the competitive advantage. This will ensure that the firms remain competitive irrespective of the huge competition from the local and international banks.This will also ensure continued growth of the Micro Finance firms .

5.5 Limitations of the Study

The main limitation was the availability of the two key responents that were either the Chief Executive Officer or the Finance Director due to their busy schedules.Some thought that this information could be used by their competitors to target the firm in question weak arears and thus win clients from them.

There was also the limitation of time which if it were adequate could have helped in enriching the research through collecting more information from all the Micro Finance firms irrespective of their locations.

5.6 Suggestions for further Research

This study was on firms in the Micro finance industry in Kenya and it dealt with only ten types of competitive advantages enjoyed by firms and ten factors that influence the competitive advantage if firms in the Micro finance Industry. The researcher therefore recommends that further research should be carried out to incorporate other Micro finance firms in other countries and also to incorporate other types of competitive advantages and other factors that influence competitive advantage.

It is significant to do further research on strategies that can be adopted to tap to the sources of competitive advantage that can lead to drastic growth and also research on how the firms should sustain the competitiveness irrespective of the internal and ecternal forces.

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