

**A SURVEY OF THE COMPETITIVE STRATEGIES USED BY NGO  
MICROFINANCE INSTITUTIONS IN NAIROBI**

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**BY**

**LENGEWA PETER L'PARNOI**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
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## Declaration

The project proposal is my original work and has not been submitted for examination in any other university.

Signature  \_\_\_\_\_

Date 16/10/03

Peter L'parnoi Lengewa

MBA student

This project proposal has been submitted with my approval as University Supervisor.

Signature  \_\_\_\_\_

Date 23/10/03

Dr. Martin Ogutu

Department of Business Administration

## **Dedication**

**To my Wife Catherine Mesianto, My children Silantoi and Lemayian and  
my Parents, Andrew and Michelina Lengewa**

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I would like to sincerely thank my wife Catherine, my Children Silantoi and Lemayian for the love, patience and support they gave me throughout the period I was pursuing the MBA program. I particularly thank Catherine for the ideas, burning the midnight lamp together and praying for me. For my children, sincere thanks for allowing Dad to do his homework at home!

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Above all, may all glory be to God the Father the Son and the Holy Spirit for *"it is in Him we live, move and have our being"*

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## List of abbreviations

MSE – Micro and Small Entrepreneurs

NGO – Non Governmental Organization

MFI – Micro Finance Institution

R&D – Research and Development

ROSCA – Rotating Savings and Credit Associations

SACCO – Savings And Credit Cooperative Societies

TQM – Total Quality Management



## Abstract

The financial market is served by players who are formal, semi formal and informal. Among the players are NGOs that have been offering microfinance services. These NGOs are firms that are limited by guarantee and most of them were initially set up as non-profit making institutions. Some fundamental changes have taken place in the microfinance sector. They include increase in the number of players; NGOs, Cooperative Societies and Banks, reduced donor financing and increased donor pressure that these NGO MFIs become sustainable. No funding was guaranteed and NGO MFIs have had to rely on their customers and business to survive. All these factors have led to NGO MFIs to employ various competitive strategies to survive.

This study sought to establish and document the various competitive strategies used by NGO MFIs in Nairobi to compete effectively in the industry. The study also sought to establish the competitive challenges faced by the respondents as they operate in the industry. There are 9 NGO MFIs in Nairobi according to records, both at the NGO, Coordination Bureau and at the Association of Microfinance Institutions in Kenya (AMFI). Therefore a census study was carried out for the organizations.

Data was collected through a questionnaire method. All the questionnaires were administered through the drop and pick later method due to unavailability of CEOs or their designates. The response rate was 56%. The findings of the study indicate that the respondents mostly employ strategies related to transaction processing. The most utilized strategies were identified as making the loan application process quick and simple, employing competent staff, easing the process of becoming a customer, making repeat loans processing quick and convenient, offering high quality services, ensuring loans are available when needed and ensuring there are sufficient funds at all time to meet savings withdrawal requests by customers.

The least utilised strategies were identified as de-linking savings from loans i.e. not using forced savings to guarantee loans, allowing higher savings withdrawal frequencies and giving staff incentives. Based on calculated mean scores the respondents identified imitation by other competitors, accessing finances to fund operations and loan portfolio, staff turn over, shared vision between management and the Board of Directors the 3 major competitive challenges.

# CHAPTER ONE: INTRODUCTION

## 1.1 *Background*

The financial market in developing countries typically includes a mix of formal, semi formal and informal components (Germidis, Kessler and Meghir, 1991). According to Robinson (2001) the formal financial sector covers a wide range of institutions such as banks and cooperative societies; these are mostly urban and peri-urban based and supply financial needs of the more modern sector. The semi formal financial organizations are usually unlicensed and generally unsupervised, nevertheless they may operate under particular laws and regulations.

Unlike the formal financial institutions the semi-formal ones usually provide limited services, as the law in many countries may not allow them to provide a wide range of financial services. Some semi-formal institutions such as NGOs, provide micro credit but are usually not permitted to take voluntary savings from the public. The informal sector on the other hand is uncontrolled and unregulated and includes such providers as loan sharks, wholesalers, shopkeepers, employers, Rotating Credit and Savings Associations (ROSCAS) and landlords. (Robinson, 2001) The formal, semiformal and informal financial systems usually operate parallel and in many situations interact in complex ways beyond merely price and income interactions.(Robinson, 2001) The above scenario is typical of the Kenyan financial sector landscape. The focus of this study is the operations of microfinance by the semi formal sector specifically examining the microfinance operations as carried out by the NGOs.

Microfinance refers to small-scale financial services – primarily credit and savings-provided to people who run small businesses. These services also include insurance and payment services. (Robinson, 2001). According to Ledgerwood (!998) the term microfinance refers to the provision of financial services to low income clients, including the self employed. She further explains that microfinance institutions generally provide services that include credit, savings, insurance and money transfer services. In the past two to three decades there have been efforts by governments especially in the third world in conjunction with the donor community in different countries to develop the rural economy. Among the interventions that were proposed and pursued was the provision

of financial aid to the rural poor, later the effort spread to encompass the low income earners in the urban areas as well. (Ledgerwood ,1998)

Microfinance arose in the 1980's as a response to results of research findings about the state delivery of subsidized credit to poor farmers. In the same period subsidized, targeted credit model supported by many donors was an object of steady criticism because most programs set up to provide these services were inefficient and thus returned huge losses.(Ledgerwood, 1998)

The services that were provided then were basically small loans at subsidized rates, the efforts were not seen from the light of sustaining the service provider or the beneficiaries of these loans. In an effort to develop this sort of credit further many credit programs experimented on product design, delivery methods and institutional structures. The results of these experiments lead to the emergence of micro of credit delivery mechanisms/methodologies. It became evident with time that market based solutions were critically important for the development of microfinance. This led to an approach that that considered microfinance as an integral part of the overall financial system. Emphasis slowly shifted from rapid disbursement of subsidized credit by short-lived projects or programs towards the building of sustainable institutions to serve the poor (Ledegerwood, 1998)

In Kenya players in microfinance include Commercial banks, Housing finance companies, Cooperative societies Informal service providers (money lenders, ROSCAs) and Non governmental organizations. The microfinance sector in Kenya (and in the developing countries) evolved from the 1980's basically out of a broader need to alleviate poverty and raise the living standards of Kenyans. Humanitarian institutions such as World vision, Care Kenya, Food for the Hungry established what was then known as revolving loan funds that were typically tailored to supplement other community development initiatives such as provision of health services, clean water, sanitation, education and shelter. These NGOs were established basically to meet social goals of raising the living standards of their beneficiaries. Most of the funding for these institutions came from the West. Donor support has been the main source of financial inflows for the NGOs. (Dichter, 1999)

For a long time these NGOs have operated as social development institutions but that is now changing as the decline of donor support is putting pressure on these institutions to rely on their clientele for survival. The challenge today faced by NGOs is to shift their thinking from relying on finances from donors to relying on their clients as a source of income and in effect the reason for their existence. This is made complicated by the fact that the services (products) offered by these NGOs have been basically supply driven. (Wright, 2000)

On the demand side several studies have been conducted which indicate that demand for financial services in Kenya far outweighs the supply. Demand for savings, micro insurance, money transfer services is evident. It only calls for understanding the nature of demand and developing innovative product/service design and delivery mechanisms (Rutherford, 1999, Wright 2000, Wright et al 2000, Kimuyu & Omiti, 2000)

The microfinance sector in Kenya is dominated by NGOs. The formal financial sector has not featured much in this area due to the following reasons:

- i. Most microfinance clients do not possess the traditional collateral required by banks
- ii. The banking act restricts the size of non collateralized loans especially if it is not for salaried employees
- iii. The loan sizes required by these clients are usually small and relatively costly for banks and other institutions to administer
- iv. There has been a misconception that the poor are some kind of crooks and will therefore default if advanced any money (Baydas et al, 1997)

Due to these factors and others the formal financial sector involvement in microfinance has been limited. The NGOs with the assistance of donors have been able to set up institutions that experimented on diverse approaches to lending to the low income earners using home grown ideas as well as experiences from other parts of the world. Despite the NGO involvement demand for financial services to the low income earners still outstrips supply to a great extent. The gap between effective demand and supply national wide in 1999 was estimated Ksh. 57 billion. (National Micro Enterprise Baseline Survey, 1999)

There was sufficient evidence in the early eighties that, the low income earners indeed needed and deserved financial services and that it is only by creating sustainable service providers that such a service could be sustained over time. This recognition helped in the setting up of several NGOs involved in micro-credit. These institutions are typically donor financed ("supply driven equity"), they provide homogenous products (mostly group based loans), they serve generally the same market, have had supply driven products (Ledgerwood, 1998)

Several strategies for going about micro credit services were advanced. One of the main approaches was that of establishing institutions that would provide services to the poor and as their businesses develop such people would be graduated to formal financial institutions where it was hoped they would receive other services. Nevertheless, most NGOs have encountered serious problems of sustainability, suggesting there may be serious flaws in the NGO approach that need to be acknowledged. These flaws appear to emerge from organizational design — that is, property rights and governance structures, features that are generally strengths in commercial banks. At the same time, NGOs usually are not responding to the widespread demand for deposit services from their clients, demand effectively serviced by banks. (Baydas et al, 1997, Dichter, 1999)

The NGOs were however (and still are) in a dilemma that touches on their own survival. These are manifested in the challenges listed below;

- i. Increase in the number of MFIs
- ii. Inflows of funds to support micro enterprises especially from abroad has been on the decline
- iii. Accessing funds locally to fill the gap being left by the fall in donor funds....has further complicated management of MFIs
- iv. The lack of clear cut stakeholders in the microfinance sector (monthly economic review, May 1999)
- v. Increasing formal banks' interest in microfinance
- vi. High client drop out rates (Hulme et al 1999)
- vii. A hardly growing client base

With these challenges the survival of these institutions is at stake. There may be several issues that need to be addressed in order to ensure the survival of the MFIs and guarantee the continued provision of services to the low income earners. One of the key issues for MFIs in Kenya today is the need to be competitive in a market in which commercial banks have started entering (e.g. Cooperative bank has established agencies to offer services to micro and small entrepreneurs) and saturated by other informal competitors. Survival of these MFIs depends on their ability to develop and sustain competitive advantage. Evidence from initial trials with programs offering subsidized services revealed that these programs made huge losses and required frequent capitalization to continue operating. It became apparent that market based solutions for microfinance was required (Ledgerwood, 1999). The situation in Kenya is not any different many MFIs in Kenya are yet to become profitable.

This study therefore seeks to focus on the NGO players since as discussed above they represent a unique cluster of service providers in the financial sector.

## **1.2 Statement of the problem**

There have been significant changes in the microfinance sector in the past 10 years. Donor support which has been the main driving force behind the operations of the NGOs has been rapidly declining as the donors insist that NGOs demonstrate efficiency and sustainability in their operations. The sector has also experienced increase in the number of institutions providing Microfinance services. This is as a result of the increase in number of NGOs and the entry of formal financial institutions such as banks and cooperative societies into microfinance. (Monthly Economic Review, May 1999) These issues have brought about an environment in which survival of institutions in microfinance basically depends on the ability of these institutions to effectively compete in the market.

According to literature reviewed it is apparent that sustainability of MFI is a priority issue both for the donors and MFIs. Sustainability of MFIs lies in their ability to rely on the market, to generate enough revenues to cover costs of providing services rather than relying on donors as was previously the case (Ledgerwood, 1999) Therefore the question of market driven products and ability to beat competition is now most critical for the survival of MFIs.

There is increased pressure from donors that MFIs in Kenya operate profitably. The decreasing donor support has brought about major changes in the financing arrangement of these institutions. As mentioned earlier there has been great reliance on donor support, but now like any other business, MFIs need to meet operating expenses and make profits not from writing proposals to donors but by ensuring they meet the needs of its current and potential clients and do it better than competition. (Monthly Economic Review, May 1999, MicroSave Africa, 2001 MicroSave Africa, 2001)

Research also shows that there have been high levels of client drop outs among MFIs. According to a research by Hulme et al. (1999) there was an indication that clients were leaving for a variety of reasons but significant were problems arising from the MFIs undesirable policies (recruitment processes, loan sizes and terms). Such dropouts result in increased costs of recruitment for replacing exiting clients. (Hulme et al, 1999)

The need to focus on client expectations and take into consideration competition may sound like an obvious process in strategy formulation and implementation; however, MFIs have been accused of being slow to respond to market realities. Wright (2000) points out those MFIs still operate in the supply driven mode a fact that is incompatible to today's competitive environment. With the rising recognition of the costs associated with high levels of drop-outs and their implications for achieving sustainability, there is a growing appreciation of the need to deliver client responsive products. Increasing levels of competition in microfinance market have also highlighted the importance of a market-driven approach to microfinance (Wright, 2000)

This research will therefore address the following questions; what strategies are MFIs using to compete and what are the challenges faced by MFIs in implementation of competitive strategies?

### ***1.3 Scope of the Study***

The scope of the study is limited to identifying the competitive strategies the NGO MFIs in Nairobi are using to compete in providing financial services and the competitive challenges they are facing as they operate in the industry.

## **1.4 Research objectives**

The research objectives for this study are to:

1. Identify the competitive strategies that are used by the NGO MFIs in Nairobi
2. Establish the challenges encountered by NGO MFIs in Nairobi in implementing competitive strategies

## **1.5 Importance of the study**

This study is of significance in the following ways:

1. It will provide managers and board of directors of NGO MFIs with information on the general state of competition in the industry and the types of strategies employed by NGO MFIs.
2. It will provide potential investors to this sector with information on the challenges faced by those institutions already operating and prepare themselves accordingly and develop strategies to that may help them deal with the challenges identified
3. This study will be important as an addition to the knowledge, specifically in regard to competition in microfinance and hopefully ignite the need for further research especially looking into competition arising from the informal financial service providers.



# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Overview

In today's turbulent business environment, managing both internal resources and challenges posed by the external environment is essential in the survival of any given organization. To deal effectively with matters that affect growth and profitability executives employ management processes that they believe will position a firm optimally in its competitive environment. (Pierce & Robinson, 1991) Strategic management plays a critical role in facilitating the deployment of a firm's resources in an efficient manner to facilitate the optimization of long term performance of the firm (Bennet, 1999) Strategic management involves planning, directing, organizing and controlling a company's strategy related to decisions and actions (Pierce & Robinson, 1991)

Competition denotes the existence of firms that try to sell identical products/services to the same group of customers. A firm's competitors may change over time in terms of their characteristics, strategies and strategic focus due to environmental factors that affect the structure of the industry (Guiltinan & Paul, 1994)

With changing business environment firms are finding it increasingly difficult to find industry environments in which there are good enough conditions that allow a rate of return above the competitive level. Competitive strategies provide a framework for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant, 1998, MacMillan, 1998)

## 2.2 Competitive strategies

Strategy in business is concerned with superior performance. The essence of formulating strategy is relating a company to its environment. (Porter, 1998) According to Hamel and Prahalad (1994) the essence of strategy lies in creating tomorrow's competitive advantage faster than competitors mimic the ones you possess today. The goal of competitive strategy is to find a position in the industry where the company can best defend itself against competitive forces or use them in its favour (Porter, 1998)

Competitive strategy which is also referred to as business strategy is concerned with how a firm competes in a given industry or market. (Grant, 1998) Jay Bourgeois (1980) has referred to corporate strategy as domain selection and business/competitive strategy as domain navigation. It is therefore appropriate to state at this point that competitive strategies are concerned with one main question; how should we compete?

Grant argues that there are two sources of superior performance; one is to locate in an industry where industry conditions are good enough to allow a rate of return above the competitive level. The other option is for a firm to attain a position of advantage vis a vis competitors within an industry to allow it to earn a return in excess of industry average. He further argues that as competition intensifies in almost all industries, very few industry environments can guarantee secure returns. Hence the primary goal of a strategy is to establish a position of competitive advantage for a firm (Grant 1998)

Porter argues that understanding the structure of the industry plays a critical role in the formulation of competitive strategies. According to Porter there are five forces driving competition in the industry, which largely determine the structure of the industry. These forces are;

- i. The threats of new entrants
- ii. The bargaining power of suppliers
- iii. The bargaining power of buyers
- iv. The threat of substitute products and
- v. Rivalry among competitors

Porter also argues that competitive strategy is about taking offensive or defensive actions to create a defensible position in an industry, to cope successfully with the five competitive forces and thereby yield superior return on investment for the firm.

Faced with the five competitive forces firms according to Porter have three potentially successful generic strategies that they can use to outperform other firms in the industry.

The generic strategies are:

- i. cost leadership
- ii. differentiation
- iii. focus

Grant (1998) explains that a firm would normally compete by either supplying an identical product or service at a cost that is lower than competition or can supply a product /service that is differentiated in such a way that consumers are willing to pay a premium price that exceeds the marginal costs of differentiation. The former case represents a cost advantage while the latter a differentiation advantage (Grant 1998) The focus strategy is about using either cost leadership or differentiation strategy to targeting a particular buyer group, segment, product line and geographic market. (Porter, 1998)

By pursuing cost advantage the goal of the firm is to become a cost leader in its industry or industry segment. Cost leadership requires that a firm must find and exploit all sources of cost advantage and sell a standard product (Porter, 1985). Differentiation by a firm from its competitors is achieved when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1980)

The two sources of competitive advantage described above define two fundamentally different approaches to business. A firm that competes on low cost is distinguishable from a firm that competes through differentiation with regard to market positioning, resource and capabilities as well as organizational characteristics (Grant 1998). Porter further argues that cost leadership and differentiation strategies are mutually exclusive and that if one attempts to pursue both will lead to a firm being stuck in the middle and can subsequently lead to low profitability (Porter, 1980)

Others scholars such as Johnson & Scholes (1999) have explained that a firm's basic choices to achieve competitive advantage include:

1. A "no frills" strategy combining lower price than competitors at similar added value of product / service to competitors
2. A low price strategy providing lower prices than competitors at similar added value of products/service to competitors
3. A differentiation strategy which seeks to provide products/services which are unique or different from competitors
4. A hybrid strategy which simultaneously seeks to achieve differentiation while maintaining prices lower than competition
5. A focused differentiated strategy which aims at providing high perceived value justifying a substantial price premium

The works of Andrews (1971) and Christensen, Andrews and Bower, (1973) provide insight into the classical approach to strategy management. In the classic approach, competitive strategy is seen as a combination of the ends (goals/mission/objectives) for which the firm is striving and the means (policies/tactics) by which it seeks to get there. The essential notion of strategy is captured in the distinction between ends and means.

Porter (1980) on the other hand argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete, what are the goals and policies or tactics necessary for achieving the goals. Competitive strategy includes actions or attempts by a firm to attract customers, retain them, withstand competitive pressures and strengthen its market position and is aimed at gaining competitive advantage. Porter expressed the key aspects of a firm's competitive strategies in what he referred to as the "wheel of competitive strategies", on figure 1 below.

Figure 1: Wheel Of Competitive Strategy



Source: Porter, 1998

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At the centre of the wheel are the firm goals, which represent the broad definition of how the firm wants to compete and its specific objectives. The spokes of the wheel are the key operating policies through which the firm seeks to achieve the goals. Operating policies vary from industry to industry based on the Key success factors.

In order to address specific issues unique to this study, it is important to identify specific key aspects that will be used to identify competitive strategies adopted by firms in the microfinance industry.

In 1997 and 1998, Women World Banking (WWB) prepared questionnaires using a framework of operational effectiveness and Organizational effectiveness, asking WWB affiliate and other microfinance leaders participating in WWB Best Practice Workshops which factors they judged to be of high, medium or low importance. Microfinance institutions considered that organizational aspects were more important than the operational nuts and bolts. In all regions, of the thirty elements analyzed, over 90% of respondents judged the following five elements to be of high priority:

1. Strong leadership on board and/or management.
2. Clear mission, vision and principles that guide and motivate.
3. Effective relationship between the institution and its clients.
4. Competent, productive and committed credit staff.
5. Management and staff treated as productive resources, with effective measures to build people's capabilities and knowledge.

The next set of key elements involves a focus on service, simplicity in products and processes, and good MIS. The following elements were judged to be of high priority by over 80% of respondents:

1. Ensuring quick and simple transaction procedures that are easily accessible to clients.
2. Clear definition of credit methodology and processes.
3. Control of late payments in a timely manner.
4. Improved service quality and expanded services to retain good customers.
5. Credit management systems and capabilities.
6. Efficient cash management.

7. Adequate Management Information Systems, which help manage operations and track performance against key indicators ([www.swwb.org/english/2000.key\\_success\\_factors\\_in\\_microfinance.htm](http://www.swwb.org/english/2000.key_success_factors_in_microfinance.htm))

The competitive strategies addressed by this study are classified into 8 categories of critical success factors. These are products and service offerings, methodologies for delivering services, transaction processes, Customer Care and customer service, adequate information management systems, efficient cash management, staff and marketing.

The competitive strategies in product and service offering include; offering high quality credit, savings products or those not offered by competition. Offering better terms, with regard to loan size, repayment intervals, interest rates and flexibility in loan use. (Wright,2000, Hulme 1999) Methodologies for delivering service include: ability for clients to access services in a convenient manner, with minimal transaction costs, size of group required for getting loans, collateral/ guarantee requirements and savings requirements.

Transaction processing strategies include; easy procedures for becoming a customer, quick and simple loan application process, quick and convenient processing of repeat loans. (Rhyne&Rotblatt, 1994) Customer care and service which include development of a customer care policy, availability of feedback systems within the organization that allows the firm to continually monitor and works on clients concerns.

Adequate information systems which include: information systems that enable development of appropriate data bases that enable a firm to monitor its portfolio, enable quick and timely disbursement of initial and repeat loans; the system would also enable the institution to develop an effective system of monitoring credit officers performance in managing portfolio thus helping in the development of and effective performance incentive system. (Rhyne&Rotblatt, 1994)

Efficient cash management strategies include: management of firms liquidity position to ensure funds are available for loans and refunds of savings, since many NGO-MFIs do not have banking licences they do not fall under the supervision of Central Bank, thus unlike banks that have to maintain mandatory liquidity levels, MFIs liquidity is at the discretion of management. Staff strategies include: Hiring competent staff, providing

adequate training in operations and customer care, providing incentives for motivation. Marketing include: giving gifts, interest rebates for timely payments, engage in advertising, sales promotion.

### **2.3 Competitive Challenges**

In their monograph, Box and Watts (2000) argue that Implementation of competitive strategies is a combination of hundreds or thousands of related activities. They argue that this entire system of activities leads to competitive advantage in the market place. In his award winning HBR article Porter illustrates the importance of a well-organized network of activities with examples from Southwest airlines. (Porter, 1996)

Box & Watts further argue that the real challenge in implementation a generic strategy is in recognizing all supportive activities and putting them in place properly. Porter (1996) also argues that most of what many management trends in the 80's and 90's – such as TQM, reengineering, empowering the workforce, lean production, outsourcing, and time based competition were a matter of operational effectiveness rather than strategy. Therefore in implementing strategies firms may be pursuing operational effectiveness in the name of strategy yet Porter points out that operational effectiveness though necessary is not sufficient to bring about competitive advantage. He concludes by arguing that achieving competitive advantage means adopting the appropriate generic strategy and implementing the strategy with a network of supportive activities (Porter, 1996)

Other challenges in the implementation of generic strategies for instance Porter (1998) illustrates some of the challenges in terms of risks

- i. Technological change that renders investment in technology and learning worthless
- ii. Low cost industry learning by new comers through imitation and the use of new technology
- iii. Inflation in costs of inputs that increase the firms costs
- iv. The consumer's need for differentiating factor falls
- v. Imitation can narrow perceived differentiation
- vi. Differences in desired products between the strategic target and the market
- vii. Competitors break into the target market and outplay the focuser

In implementing strategy firms face challenges such as inadequate financial resources, costly sources of funds, skills and ability of staff, marketing abilities, changes in customer needs, government requirements and the complexity of coordinating all firms' activities in pursuit of the agreed strategy. (Porter 1998, Grant 1998, Ansof 1990)

In the Kenyan Microfinance industry just in the other parts of the world the challenges facing in the implementation of competitive strategies are numerous. They include problems of capitalization accessing financing needs to help sustain operations in the light of reduced donor funding. Ownership structures of many of the NGO microfinance institutions is not clear thus making investment and lending to these NGOs by banks and other investors difficult thus increasing capitalization problems. Human resource weakness and limited management capacity has been noted as another challenge. Market research and product design. High staff turnover and unattractive staff incentive structures have been noted to be a key issue within the industry. High cost structures and high client drop out rates coupled with limited market knowledge have also been cited as a significant challenge for NGO MFIs. (MicroSave Africa, 2001, Wright 2001)



## CHAPTER THREE: METHODOLOGY

### **3.1 *Population of interest***

The population of this study was all the Microfinance NGO institutions in Nairobi. According to records at the NGO Coordination Bureau and the Association of Microfinance Institutions (AMFI), which maintain records of MFIs in Kenya, there are 9 NGO MFIs in Nairobi. A census study was conducted among these firms since the population of interest was small.

### **3.2 *Data collection instruments***

Data was collected using questionnaires. A drop and pick later method was used. The respondents 3 organizations were the chief executive officers while in the other two cases the respondents were an operations manager and a business analyst.

### **3.3 *Data analysis***

Data collected was analysed using descriptive statistics. A narrative summary of the open ended questions was made. The SPSS statistical computer package was used to analyze responses that were secured from likert scale type of questions.

## **CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION**

### **4.1 Introduction**

This chapter presents the analysis, research findings and discussions of the results of this study. The details are presented under three main headings, characteristics of the NGO MFI, competitive strategies and competitive challenges. A total of 9 NGO MFIs were approached. A total of 9 questionnaires were distributed out of which 5 were completed and analysed. This represents 56 % of the respondents.

There seem to have been two main challenges during the study. According to the respondents the subject of study required them to share information that others considered confidential and for this reason some respondents were suspicious about the motive of the researcher given that there is apparently some mistrust within MFI NGOs circles. On the other hand the some respondents claimed to be "tired of being interviewed", the NGO sector seem to be attracting a sizable number of researchers in different disciplines. The situation has led some of those MFI NGOs to direct their reception staff not to allow anyone to even drop a questionnaire with them. A lot of convincing and use other personal contacts to reassure some respondents enabled the researcher get back 56% of the questionnaires distributed of the respondents.

### **4.2 Characteristics of the NGO MFIs**

This subsection analyses some key characteristics unique to the respondents and it's intended to establish certain similarities in such areas as years of operation, number of branches, the size of loan portfolio, the volume of deposits, services offered, the perceived pricing of their products according to customers as well as the methodology used in the loan delivery. This section also addresses respondents' perception of competition in the market. Data findings are presented in frequency tables and percentages. Narrative summary of open ended questions has also been made.

#### **4.2.1 Years of operation**

The number of years the MFIs have been operating in the industry is important to be able to establish the specific period of time when they entered the market.

Table 4.2.1: Years of Operation

Years	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid 4	2	40%	40%	40%
9	1	20%	20%	60%
12	2	40%	40%	100%
Total	5	100%	100%	

Median years of operation = 9 years  
 Average years of operation = 8% years  
 Mode = 4 years  
 N=5

Summary data of years in operation, Table 4.2.1 above shows that the respondents' institutions have been operating for and average of 8 years. The minimum years of operations being 4 years and the maximum 12 years.

### 4.2.2 Ownership

The ownership indicates whether or not the firms have local, foreign or mixed ownership composition.

Table 4.2.2: Nature of Ownership

	Frequency	Percent	Valid percent	Cumulative percent
Valid Local	5	100%	100%	100%

The findings summarised in table 4.2.2 above indicate that all the MFI NGOs are local.

### 4.2.3 Number of branches

The number of branches and distribution are shown on Table 4.2.3 (a) to 4.2.3 (c) below

Table 4.2.3 (a): Number of Branches

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	1	20%	20%	20%
5	2	40%	40%	60%
6	1	20%	20%	80%
14	1	20%	20%	100%
Total	5	100%	100%	

N=5

Table 4.2.3 (b): Number of branches within Nairobi

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 0	1	20%	20%	20%
1	1	20%	20%	40%
3	2	40%	40%	80%
4	1	20%	20%	100%
Total	5	100%	100%	

N = 5

Table 4.2.3 (c): Number of branches outside Nairobi

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	1	20%	20%	20%
2	1	20%	20%	40%
4	1	20%	20%	60%
6	1	20%	20%	80%
14	1	20%	20%	100%
Total	5	100%	100%	

Findings summarised in tables 4.2.3(a) to 4.2.3(c) show that the organizations interviewed had between 2 and 14 branches. A total of 20% of the institutions have no branches in Nairobi, while 80% have branches outside Nairobi. 80% of the institutions have branches both within and out of Nairobi.

## 4.2.4 Loan portfolio

Table 4.2.4: Loan portfolio by the end of 2002

Kshs	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid 39,000,000	1	20%	20%	20%	
45,000,000	1	20%	20%	40%	
62,400,476	1	20%	20%	60%	
103,000,000	1	20%	20%	80%	
703,000,000	1	20%	20%	100%	
Total	5	100%	100%		
Average loan portfolio		Kshs. 90,480,095.20			
Minimum loan portfolio		Kshs. 39,000,000			
Maximum loan portfolio		Kshs. 703,000,000			

N=5

Table 4.2.4 above shows that the average loan portfolio of the respondent institutions by the end of 2002 was Kshs. 90,480,095.20. The maximum and minimum loan portfolio being Kshs 703,000,000 and Kshs. 39,000,000 respectively

## 4.2.5 Volume of deposits by end of 2002

Table 4.2.5: Volume of deposit by end of 2002

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 15,600,000	1	20%	33.3%	33.3%
41,000,000	1	20%	33.3%	66.7%
332,000,000	1	20%	33.3%	100%
Total	3	60%	100%	
Missing System	2	40%		
Total	5	100%		
Minimum Kshs 156,000,000				
Maximum Kshs 3,332,000,000				

N= 5

Only 60% of the institutions gave information on the savings volume and in all these cases the nature of saving was forced indicating the fact that saving is still a part of the loan product that the respondent institutions offer and not a product in its own respect.

#### 4.2.6 Services offered by the firm

Table 4.2.6 below summarises the types of products/services offered by the respondents.

Table 4.2.6: Services offered by the firms

	Count	% of Responses
Business Loans	5	100.0
Agricultural loans	3	60.0
Personal/consumer loans	2	40.0
Training (business and technical)	5	100.0

N=5

All respondents interviewed offer business loans and training (in business and technical services), 60% of them offer agricultural loans while 40% offer personal/consumer loans. This suggests that the level of competition may be more visible in the business loans since all of the institutions interviewed offer this product. The training service in all cases is a pre loan training for which no fee is levied. This is strictly not a product in its own respect.

#### 4.2.7 Customer perception of firms' prices

Table 4.2.7 below shows the customers' perception of the prices charged by the respondents.

Table 4.2.7: Customers considerations of your prices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Higher than competition	1	20%	20%	20%
	Similar to competition	3	60%	60%	80%
	Lower than competition	1	20%	20%	100%
	Total	5	100%	100%	

N=5

Research findings as indicated in table 4.2.7 above show that 60% of the respondents' consumers feel that prices are similar to competition. 20% feel that it is higher than competition while another 20% perceive prices to be lower than competition.

Reasons given for consideration that prices are similar to competition are that the rates of interest in the market are quite competitive and that since MFIs operate in the same markets customers are able to easily compare prices charged across the firms.

#### 4.2.8 Methodologies used in lending

Microfinance institutions adopt different approaches to lending to help in lowering administrative costs as well as provide institutions with alternative collateral arrangements. Individual loan methodology is mostly used where collateral arrangements applied are similar to the ones used by formal banks. While village banking and solidarity group methodologies are used where alternatives to tangible/immovable assets have to be used to secure loans. (Ledgerwood, 1998) Table 4.2.8 summarises the methodologies used by respondents.

Table 4.2.8: Methodology used for loan products

Dichotomy label	Count	%age of Cases
Solidarity	5	100.0
Village banking	1	20.0

N=5

All the respondents use solidarity group methodology while 20% use both solidarity and village banking methodology. This indicates similarity in strategy among respondent institutions in terms of how their cost management strategies are and how their loans are secured.

#### 4.2.9 State of competition in the industry

Research findings on the state of competition indicate that the market according to the respondents is highly competitive. Table 4.2.9 below summarises the respondents' views on their perception of the level of competition in the market.

Table 4.2.9: Rating competition in the market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Highly competitive	3	60%	60%	60%
	Average	2	40%	40%	100%
	Total	5	100%	100%	

N=5

60% of the respondents indicated that the microfinance industry is highly competitive, while 40% indicated that the level competition is average. Reasons given included the existence of many players (banks and NGOs) which offer similar products. It was also mentioned that the clientele is well informed about the different products and pricing regimes across institutions. Other respondents cited reasons for high level of competition as being the entrant of new products in the market and aggressive marketing by banks to customers who were previously thought to be exclusively for NGO MFIs. It has also been noted that there has been tough conditions from donor agencies thus leaving MFIs with no choice but compete in the market. One respondent however indicated that the existence of grant money is still influencing pricing as such some MFIs offer loans at subsidised interest rates thus making the market more competitive.

#### 4.2.10 Business competitors

Research findings indicate the main competitors mentioned by respondents include K-rep bank, Kenya Women Finance Trust, Faulu, SMEP, BIMAs, Equity finance, Cooperative bank and WEDCO Ltd. All these mentioned institutions are either formal institutions or semi formal institutions. None of the informal sources of finance were considered a source of competition.

### 4.3 *Analysis of action plans used by NGO MFIs to beat competition*

Table 4.3.1 to 4.3.8 represent findings on strategies used by the respondents. These are summarised in the categories of Product and Service Offerings, Methodologies for Delivering Services, Transactions Processing, Customer Care and Service, Information Systems, Cash Management Systems, Staff and Marketing. To analyse the specific



strategies used within these categories, the key used in the questionnaire was as follows.

The key used                      Weights assigned (x)      Mean Score Analysis

1.	Used to a great extent	1	1
2.	.	2	2
3.	.	3	3
4.	.	4	4
5.	Not used at all	5	5

The key used above was on a likert scale 1 being strategies used to a great extent while 5 represents strategies not used at all.

To compute the mean weights (x) were assigned to the frequencies (f) as shown above and the product of these two established ( $f \times x = fx$ ). The sum of  $fx$  was divided by the total number of observation (N=5) Hence the formula was applied

$$\frac{(\sum fx)}{N}$$

A mean score of 1 indicates that the strategy is used to a great extent while a mean score of 5 indicates that the strategy is not used at all. Once mean scores were assigned to specific, all the strategies were ranked from those with the lowest to those with the highest mean as shown in on table 4.3.1 to 4.3.8. Table 4.3.9 represents the overall rating of the competitive strategies considered.

### 4.3.1 Competitive strategies related to product and service offering

Table 4.3.1: Competitive strategies related to product and service offering

Position	No.	Competitive strategy	Mean	Standard Deviation
1	2	Offering high quality services	1.60	.548
2	1	Offering products and services not offered by competitors	2.00	1.000
2	3	Offering better terms for services	2.00	.707
3	6	Giving customers flexibility in use of loans	2.20	1.095
4	10	Charging lower interest rates	2.40	.894
5	4	Offering higher loans sizes	2.80	1.304
6	5	Providing longer repayment period fro the loans	3.60	.548

Position	No.	Competitive strategy	Mean	Standard Deviation
7	7	Offering refinancing arrangements when required by borrowers	3.80	1.643
8	8	Offering lower minimum deposits for savings	4.20	1.789
9	9	Higher savings withdrawal frequencies	4.80	.447

Table 4.3.1 summarises the mean ranking of strategies related to product and service offerings. These results indicate that NGO MFIs mostly seek to offer high quality services as well as provide services/products which are not offered by competition.

On the other hand the least used strategies in this category include offering refinancing arrangement for customers. The findings also indicate that the use of savings both minimum deposits and withdrawal frequency aspects are least used strategies. This may be attributed to the fact that savings that these firms mobilize are mostly forced savings and is usually embedded in the loan product thus showing that NGO MFIs do not widely use savings related action plans as in their strategies for beating competition.

### 4.3.2 Competitive strategies related to Methodologies for delivering service

Table 4.3.2: Competitive Strategies relating to methodologies for delivering service

Position	No.	Competitive strategy	Mean	Standard Deviation
1	11	Keeping transaction costs lower than that of competitors	2.00	.707
2	12	Minimizing group sizes for accessing loans	2.40	.894
3	13	Making collateral requirements easier than that of competitors	2.60	.894
4	14	De-linking savings from loans i.e. no forced savings	5.00	.000

The findings summarised in table 4.3.2 above indicate that the respondents mainly use a strategy of keeping transactions costs lower than competition. NGO MFIS have in past been seen to be inefficient in service delivery due to high structure attributable to among

other factors high transaction costs (Ledgerwood 1999) These findings indicate that NGO MFIs may be taking issues of inefficiency seriously. The strategy of de-linking savings from loans seems not be used at all by the respondents. This may suggest that many NGO MFIs still rely on forced savings as an important source of financing.

### 4.3.3 Transaction processing

Table 4.3.3: Transactions processing

Position	No.	Competitive strategy	Mean	Standard Deviation
1	17	Easing the process of becoming a customer	1.20	.447
2	15	Making the loan application process quick and simple	1.60	.548
3	16	Making repeat loans processing quick and convenient	1.60	.548

The most utilised transaction processing strategy is the easing of the process of becoming a customer. The mean score ratings are summarised in Table 4.3.3 above.

### 4.3.4 Competitive strategies related to Customer care service

Table 4.3.4: Competitive strategies related to Customer care service

Position	No.	Competitive strategy	Mean	Standard Deviation
1	18	Have a good system of receiving feedback from clients	2.40	1.140
2	20	Serve all customers	2.40	1.673
3	19	Serve specific types of customers	3.40	1.140

The most utilized strategy in customer care service is having a good system of receiving feedback from clients. Table 4.3.4 summarises the mean ratings of the strategies related to customer care services.

### 4.3.5 Competitive strategies related to adequate information systems

Table 4.3.5: Competitive strategies related to adequate information systems

Position	No.	Competitive strategy	Mean	Standard Deviation
1	21	Investment in an information system that supports an effective staff performance monitoring	2.40	1.949
2	22	The use of an information system that makes customer service quick and reliable	2.40	1.342

The findings indicate the respondents use both strategies indicated in Table 4.3.5 to compete. There has been growing interest in information systems among NGO MFIs in the recent past. Due to the small sizes of loans and many individual accounts, MFI require reliable information systems.

### 4.3.6 Strategies related to Efficient Cash Management Systems

Table 4.3.6: Efficient cash management systems

Position	No.	Competitive strategy	Mean	Standard Deviation
1	23	Ensuring loans are available to client when needed	1.60	.894
2	24	Ensuring there are sufficient funds at all times to make payments to holders of savings accounts (forced and voluntary)	1.60	.894

Table 4.3.6 indicates that two examined action plans in cash management systems are both very important competitive strategies since the mean rating is very low, suggesting that liquidity is critical in the running of microfinance.

### 4.3.7 Strategies related to staff

Table: 4.3.7 Strategies related to staff

Position	No.	Competitive strategy	Mean	Standard Deviation
1	25	Employing competent staff	1.40	.548
2	26	Training staff in customer service	2.20	.837
3	27	Giving staff incentives e.g. Bonus	4.40	.894

The strategy used most in this category is employing competent staff and on the other hand the least used strategy related to staff is the use of incentives. Table 4.3.7 above summarises the mean score ratings.

### 4.3.8 Competitive strategies related to marketing

Table 4.3.8: Marketing

Position	No.	Competitive strategy	Mean	Standard Deviation
1	31	Use of public relations, sales promotions or advertising	2.20	.837
2	32	Differentiating from competitors in terms of names of our services, appearance of our premises, use of brochures and other marketing tools different from those used by competitors	2.20	.447
3	30	Allowing repayments by cheque, direct deposit	3.40	1.817
4	28	Offering gifts to outstanding customers	3.80	1.095
5	29	Offering interest rebates and other incentives for timely payments	4.20	.837

Table 4.3.8 above indicates that use of public relations, sales promotion and advertising as well as corporate branding rank highest among the marketing related strategies while the offering of interest rebates and other incentives for timely repayment is rated lowest. To determine the most utilized strategies by the respondents all the 32 strategies in the 8 categories discussed above were listed and the ranked according to the respective mean scores. The mean scores were ranked as summarised in Table 4.3.9 below.

Table 4.3.9: Summary Statistics

Position	No.	Competitive strategy	Mean	Standard Deviation
1	17	Making the loan application process quick and simple	1.20	0.447
2	25	Employing competent staff	1.40	0.548
3	2	Easing the process of becoming a customer	1.60	0.548
3	15	Offering high quality services	1.60	0.548
3	16	Making repeat loans processing quick and convenient	1.60	0.548

Position	No.	Competitive strategy	Mean	Standard Deviation
3	23	Ensuring loans are available to client when needed	1.60	0.894
3	24	Ensuring there are sufficient funds at all times to make payments to holders of savings accounts (forced and voluntary)	1.60	0.894
4	1	Offering products and services not offered by competitors	2.00	1.000
4	3	Offering better terms for services	2.00	0.707
4	11	Keeping transaction costs lower than that of competitors	2.00	0.707
5	6	Giving customers flexibility in use of loans	2.20	1.095
5	31	Use of public relations, sales promotions or advertising	2.20	0.837
5	32	Differentiating from competitors in terms of names of our services, appearance of our premises, use of brochures and other marketing tools different from those used by competitors	2.20	0.447
5	10	Training staff in customer service	2.20	0.894
6	12	Charging lower interest rates	2.40	0.894
6	18	Minimizing group sizes for accessing loans	2.40	1.140
6	20	Have a good system of receiving feedback from clients	2.40	1.673
6	21	Serve all customers	2.40	1.949
6	22	Investment in an information system that supports an effective staff performance monitoring	2.40	1.342
6	26	The use of an information system that makes customer service quick and reliable	2.40	0.837
7	13	Making collateral requirements easier than that of competitors	2.60	0.894
8	4	Offering higher loans sizes	2.80	1.304
9	19	Serve specific types of customers	3.40	1.140
9	30	Allowing repayments by cheque, direct deposit	3.40	1.817
10	5	Providing longer repayment period fro the loans	3.60	0.548
11	7	Offering refinancing arrangements when required by borrowers	3.80	1.643

Position	No.	Competitive strategy	Mean	Standard Deviation
11	28	Offering gifts to outstanding customers	3.80	1.095
12	8	Offering lower minimum deposits for savings	4.20	1.789
12	29	Offering interest rebates and other incentives for timely payments	4.20	0.837
13	27	Giving staff incentives e.g. Bonus	4.40	0.894
14	9	Higher savings withdrawal frequencies	4.80	0.447
15	14	De-linking savings from loans i.e. no forced savings to guarantee loans	5.00	0.000

Table 4.3.9 above shows that the most 3 utilised strategies are as follows, the first was making loan application process quick and simple, second is employing competent staff, third is easing the process of becoming a customer, offering high quality services, making repeat loan processing quick and convenient, ensuring loans are available to clients when needed and ensuring there are sufficient funds at all times to make payments to holders of savings accounts. The least utilised strategies are as follows; the least utilised strategy is de-linking savings from loans, higher savings withdrawal frequencies and giving staff incentives.

#### 4.4 Competitive Challenges

This subsection focused on identifying the challenges faced by NGO MFIs in Nairobi in implementing competitive strategies. To establish a ranking of the competitive challenges faced by NGO MFIs in Nairobi a list of challenges was presented on the questionnaire to which respondents were required to indicate which of the items listed presented what level of challenge. The responses identified were ranked in order of lowest mean. The scale used was: 1 major challenge and 5 minor challenge.

The key used	Weights assigned (x)	Mean Score	Analysis
1. Major Challenge	1		1
2. .	2		2
3. .	3		3
4. .	4		4
5. Minor Challenge	5		5

To compute the mean weights ( $\bar{x}$ ) were assigned to the frequencies ( $f$ ) as shown above and the product of these two established ( $f \times x = fx$ ). The sum of  $fx$  was divided by the total number of observation ( $N=5$ ) Hence the formula was applied

$$\frac{\sum fx}{N}$$

N

A mean score of 1 indicates that the factor is a major challenge while a mean score of 5 indicates that the factor is a minor challenge. Once mean scores were assigned to specific, all the strategies were ranked from those with the lowest to those with the highest mean as shown in on table

Table 4.4.1: Challenges faced by MFIs in implementing action plans

Position	Number	Challenges	Mean	Std. Deviation
1	9	Imitation of services by competitors	1.8	1.0954
2	1	Accessing finances to fund operations and loan portfolio	2.2	0.8370
2	5	Staff turn over	2.2	0.8370
3	4	Shared vision and mission between management and Board of Directors	2.4	0.5480
3	12	Market research and product design	2.4	0.5477
4	6	High cost structures	2.6	1.1402
5	3	Ability and skills of employees	2.8	1.3040
6	7	High client drop out	3.2	1.0950
6	10	Government regulations	3.2	1.0950
6	11	Marketing abilities	3.2	1.0950
7	2	Ownership structure	3.8	1.6430
8	8	Limited knowledge of the market	4	1.0000

Table 4.4.1 above shows the mean score ranking of the challenges faced by the respondents. Based on the calculated mean score the top 2 challenges were identified as imitation of services by competitors, accessing finances to fund operations and staff turnover. The two least challenging factors were identified as knowledge of the market and ownership structure.



## CHAPTER FIVE: SUMMARY AND CONCLUSION

The aim of this study was to try to establish the competitive strategies that NGO MFIs in Nairobi use to compete in the industry. It also sought to determine some of the competitive challenges they face as they operate in the industry. This chapter contains a summary of the results of the study.

### 5.1 *Summary and Conclusions*

Based on the findings of this study, all the 5 respondent NGO MFIs have been in operation for more than 4 years. The highest number of years in operation was 12 years. All these respondent institutions are locally owned. 80% of the institutions interviewed had branches in and out of Nairobi while 20% had no branches in Nairobi.

All the institutions interviewed offer business loans, 60% of the respondents offer agricultural loans and 40% offer consumer/personal loans. These results indicate that MFIs are now offering loans for other purposes apart from the traditional business loans. This may also indicate that MFIs have had to diversify their products in order to meet market needs. None of the respondents offer savings as a product though they are looking forward to the enactment of the Microfinance bill which will allow them to offer savings products.

The solidarity group lending methodology is used by all respondents. 20% of the institutions use both solidarity and village banking methodology. Both solidarity and village banking methodology use group guarantee for loans. This therefore indicates that NGO MFIs in Nairobi are yet to come up with alternative loan guarantee mechanisms. The findings also indicate that none of the respondents used individual loan guarantee. Use of individual loan guarantee methodology may offer MFIs a strategy to beat competition.

Respondents listed institutions they considered main business competitors. The findings show that the institutions only consider formal institutions as competitors yet according to Robinson (2000) the informal sources of finance such as loan sharks, wholesalers, shopkeepers, employers, Rotating Credit and Savings Associations (ROSCAS) and

landlords are very active participants in the financial market as such if these sources are not considered to be alternative sources of funding it is difficult for strategies to be developed to counter such kind of competition. 60% of respondents consider the industry highly competitive while 40% consider it moderately competitive.

### **Competitive strategies**

Overall the main strategy used by respondents was making the loan application process quick and simple, employing competent staff and easing the process of becoming a customer. The research findings indicate that transaction processing strategies; which include easing the process of being a customer, simplifying loan application process and making processing of repeat loans easy and convenient are the most utilized strategy category. This is in line with the innovative nature of microfinance that seeks to borrow flexibility of the informal sector to quicken processes and the rigidity of the formal sector to maintain adequate controls.

With regard to specific competitive strategies related to product and service offering, the mean score summary indicates that respondents seek to offer high quality service as well as provide services/products which are not offered by competition. As regards methodology for delivering service, respondents mainly used strategies to keep transactions lower than competition and minimizing the required group sizes for accessing loans. Easing the process of becoming a customer, making loan application process quick and simple as well as quick and convenient processing of repeat loans were seen as most utilized by respondents.

Research findings indicate in as far as customer service is concerned, respondents were using mostly the strategy of having a good system of receiving feedback from clients and serving a variety of customers. With regard to information systems, investment in effective information systems that supports effective staff monitoring and using information systems that makes customer service quick and reliable were ranked at the same level.

Strategies related to efficient cash management systems had a high overall ranking meaning that respondents ranked this as among the most utilized strategies overall. The strategies related to efficient cash management systems include ensuring loans are

available to clients when needed and secondly that there are also sufficient funds to meet cash outflows obligations for savings withdrawal.

As regards staff, the most used strategy was that of employing competent staff. The findings further indicate that there is less emphasis on staff incentives amongst the respondents. Use of public relation, sales promotion and differentiating products and corporate branding were identified as the most utilised strategies related to marketing.

On the whole, the main competitive strategies utilized according to the findings are those related to transaction processing. The three least utilized strategies were identified as; De-linking savings from loans i.e. not using forced savings to guarantee loans, allowing higher savings withdrawal frequencies and giving staff incentives.

### **Competitive challenges**

The main competitive challenges identified included imitation of services by competitors, accessing finances to fund operations and loan portfolio and staff turnover. Another challenge is that of lack of shared vision between management and the Board of directors. This particular challenge has been a hurdle that many MFIs have had to contend with given that some people still consider microfinance to a philanthropic venture. Some board members of MFIs share that view.

### **5.2 Limitation of the study**

The researcher intended to conduct a census study however some institutions refused to give the researcher audience. The subject matter was considered confidential by some potential respondents and for that reason they declined to complete the questionnaires. Records at the NGO registration bureau did not give the researcher adequate information about the MFI NGOs since their data base classification system makes it difficult to determine specifically what business different NGOs are involved in.

### **5.3 Recommendations**

I recommend that a study be conducted on the competitive strategies adopted by all players in the microfinance industry including the formal, semi formal and informal

players. Such a study may draw parallels between different players in the microfinance industry. This may add value to the NGO MFIs as they seek to determine the some issues that may be hampering their growth both in client base and loan portfolio.

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## Appendix 2 Questionnaire

### SECTION A

1 How many years operating? \_\_\_\_\_

2 Please indicate the nature of ownership of your company

Local  Foreign  Other (Please specify) \_\_\_\_\_

3 How many branches does your company have?

\_\_\_\_\_

4 What is the distribution of your branches?

Number of branches in the Nairobi \_\_\_\_\_

Number of branches outside Nairobi \_\_\_\_\_

5 What was loan portfolio by the end of 2002?

Kshs. \_\_\_\_\_

6 What was the volume of your deposits by end of 2002? Please indicate whether they are voluntary savings or forced savings.

Kshs. \_\_\_\_\_

7 What services does your firm offer?



Business loans

Agricultural loans

Personal/consumer loans

Savings

Insurance

Money transfer

Leasing

Training (business and technical)

Other (please specify) \_\_\_\_\_

8 What do your customers consider the prices of your services to be (please tick as appropriate)

1 Higher than competition

2 Similar to competition

3 Lower than competition

9 Please give reasons why your price is as indicated above

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

10 What methodology do you use for your loan products? (please tick as appropriate)

1 Individual

2 Solidarity Group

3 Village Banking

4 Other (please specify) \_\_\_\_\_

11 How do you rate competition in your market? (please tick as appropriate)

1 Highly Competitive

2 Average

3 Not competitive

4 Not sure

12 What are your reasons for 11 above?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

13 Name your 5 main business competitors

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

14 Position held by respondent in the company

\_\_\_\_\_

**SECTION B**

Please indicate (tick) to what extent you have used the following action plans to beat competition in the market.

Indicate by circling as appropriate on the on a scale of 1-5,

Where 1 = Used to a great extent and 5 = Not used at all

**Products and Services**

1. Offering products and services not offered by competitors	1	2	3	4	5
2. Offering high quality services	1	2	3	4	5
3. Offering better terms services	1	2	3	4	5
4. Offering Higher loan sizes	1	2	3	4	5
5. Providing a longer repayment period for loans	1	2	3	4	5
6. Giving customers flexibility in the use of the loan	1	2	3	4	5
7. Offering refinancing arrangements when required by borrowers	1	2	3	4	5
8. Offering lower minimum deposit for savings	1	2	3	4	5
9. Higher saving withdrawal frequencies	1	2	3	4	5
10. Charging lower interest rates loans	1	2	3	4	5

**Methodologies for delivering service**

11. Keeping transaction costs lower than that of competitors	1	2	3	4	5
12. Minimizing group size for accessing loans	1	2	3	4	5
13. Making collateral requirements for loans easier than that of competitors	1	2	3	4	5
14. De-linking savings from loans i.e. no forced savings to guarantee loans	1	2	3	4	5

### Transaction processing

15. Easing the process of becoming a customer

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

16. Making the loan application process quick and simple

17. Making repeat loans processing quick and convenient

### Customer Care and Service

18. Have a good system of receiving feedback from clients

19. Serve specific type of customers only

20. Serve all customers

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

### Adequate information systems

21. The use of an information system that makes customer service quick and reliable

22. investment in an information system that supports an effective staff performance monitoring

1	2	3	4	5
1	2	3	4	5

### Efficient Cash Management systems

23. Ensuring loans are available by clients when needed

24. Ensuring that there sufficient funds at all times to make payments to holders of savings accounts (voluntary and forced)

1	2	3	4	5
1	2	3	4	5

### Staff

25. Employing competent staff

26. Training staff in customer service

27. Giving staff incentives e.g. Bonus

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

## Marketing

28. Offering gifts to outstanding customers	1	2	3	4	5
29. Offering interest rebates and other incentives for timely payments	1	2	3	4	5
30. Allowing repayments by cheque, direct deposit	1	2	3	4	5
31. Use of public relations, sales promotions or advertising	1	2	3	4	5
32. Differentiating from competitors in terms of names of our services, appearance of our premises, use of brochures and other marketing tools different from those used by competitors	1	2	3	4	5

## Other action plans

33.	1	2	3	4	5
34.	1	2	3	4	5
35.	1	2	3	4	5
36.	1	2	3	4	5
37.	1	2	3	4	5
38.	1	2	3	4	5

**SECTION C**

The following are some issues identified as challenges in the implementation of action plans. Please indicate the extent to which the following factors are a challenge in operating efficiently in the market.

Indicate by circling as appropriate on the on a scale of 1-5, Where 1 = Major Challenge, and 5 = Minor Challenge

1. Accessing finances to fund operations and loan portfolio	1	2	3	4	5
2. Ownership structure	1	2	3	4	5
3. Ability and skills of employees	1	2	3	4	5
4. Shared vision and mission between management and Board of Directors	1	2	3	4	5
5. Staff turn over	1	2	3	4	5
6. High cost structures	1	2	3	4	5
7. High client drop out	1	2	3	4	5
8. Limited knowledge of the market	1	2	3	4	5
9. Imitation of services by competitors	1	2	3	4	5
10. Government regulations	1	2	3	4	5
11. Marketing abilities	1	2	3	4	5
12. Market research and product design	1	2	3	4	5

Please indicate and rank (1 being the greatest) the challenges you have experienced as you operate in microfinance industry as an NGO.

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**Thank you for completing the questionnaire**