

Abstract

The purpose of this study was to establish how deposit-taking microfinance institutions in Kenya apply Porter's Diamond Model to gain competitiveness in the global market. The study was guided by only one objective. In order to meet the objective, this study adopted a descriptive cross-sectional survey design. The population of this study comprised all deposit-taking microfinance institutions in Nairobi County. As at July 2014, there were 12 licensed deposit-taking microfinance institutions. The 12 institutions were all selected as a judgmental sample because a population of 12 is small and therefore could not be sampled meaningfully. Both primary and secondary data were collected. Primary data was collected directly from the respondents in the population of the study. The key respondents were the senior management team including the Managing Director, Finance Manager and Marketing Manager, with the Human Resources Manager as the contact person. A questionnaire was used to gather the information from the respondents. Sources of secondary data included the firm's intranet, journals, daily reports or papers, brochures, policy documents and other documents that were available in the registries which provided valuable information to the study. Based on the findings of the study, it is clear that factors that influenced competitiveness in deposit-taking microfinance institutions were to a very great extent capital, infrastructure, and demand for services, internal competition, taxes and government regulations. The findings also revealed that performance was greatly influenced by years of operation but not adversely affected by competition from cheaper service providers, lack of research and development, a firm's physical location or clustering. The key challenges that firms faced were lack of proper regulation, competition from mainstream banks, high capital outlay, and poor infrastructure. This study concluded that performance among players in the microfinance industry in Kenya was affected by lack of funds, poor roads and infrastructure, low demand for services, competition from local rivals, high taxes and government policies and regulations. The institutions also indicated that performance was not seriously affected by competition from cheaper service providers or lack of research on improvements in the industry