RELATIONSHIP BETWEEN COMPETITIVE STRATEGIES AND PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented to any other University or Institution of higher learning for examination or any other purpose.

Signature..................................... Date ....

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D61/8998/2001

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This research Project is dedicated to my loving wife Scolly and our sons Lee Kibet and Leon Tirop.

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ACRONYMS AND ABBREVIATIONS

MFI	Microfinance Institution
AMFI-K	Association of Microfinance Institutions in Kenya
NGO	Non-Governmental Organisations
RBT	Resource Based Theory
CBK	Central Bank of Kenya
ROK	Republic of Kenya

ABSTRACT

Strategic management ensures organizational performance by creating and shaping effective strategy to outwit competition. The primary objective of microfinance is to maximize the performance overtime leading to profitability. Superior performance can be achieved in a competitive industry through pursuit of generic strategies. The Microfinance sector has given rise to many institutions which are competing for the same market. This has demanded that microfinance institutions formulate and implement competitive strategies to be able to cope with the competitive pressure. Following the changes in the environment, microfinance institutions have been forced to come up with competitive strategies that will deal with forces in the environment in order to gain a competitive advantage in terms of performance.The current operational set-up in Kenya's microfinance industry is a turbulent one and highly competitive market condition. This study therefore aimed at determining the relationship between competitive strategies and performance of MFI in Kenya. The choice of strategies by these institutions has determined the direction of the Microfinance institutions and their performance. The study used a survey to collect data. Data was collected from Microfinance firms. The list was obtained from the Association of Microfinance Institutions. A questionnaire was distributed to senior managers and operation managers of MFI institutions whose positions and roles gave them the ability to respond effectively to the questions. To achieve the research objectives, the respondents were issued with a number of competitive strategies and were required to score on a 5 point likert scale the extent to which respective microfinance institutions use those strategies and if they affected their performance. The population of the study consisted of 61 MFI in the AMF association at 31st August 2014. Out of 61 targeted, 45 responded by returning the filled questionnaires. This was approximately 74% response rate. Responses through the questionnaires were then tabulated, coded and processed by use of a computer programme -· Statistical package for Social Science (SPSS) version 21. Descriptive statistics such as mean and standard deviation were used. Tables and charts were used to present responses and facilitate comparison.Linear and multiple correlation analysis was used to examine the relationship between independent variables (low-cost leadership, differentiation and focus) and dependent variables (Firm performance). The study found that, cost leadership strategies, differentiation strategies and focus strategies have effect on performance of microfinance institutions in Kenya.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

There have been turbulent environmental changes bearing pressure on all organizations in the Kenya. Microfinance institutions have not been spared on these changes. Organizations in general have to interact with the external environment since this is where they get their inputs from and release their outputs to after transformation of the inputs (Ansoff 1990). Kenya's financial sector is characterised by the co-existence of formal and informal markets. The formal financial markets, which mainly comprise commercial banks, foreign currency bureaus exist in urban areas and offer narrow range of services. Microfinance is a fairly new industry that started to emerge in significance in the 1980s (Otero, 1999). According to Ledger (1999), the term microfinance refers to the provision of financial services to lower income clients, including the self-employed. It is now widely recognized that the promotion of micro and small enterprise sector is viable and dynamic strategy for achieving national goal, including employment creation, poverty alleviation and balanced development of the socio-economic sectors and sub sectors (Mullei and Bokea, 1999). Government of Kenya (2002), in addition highlights the emergence and recognition of Microfinance institutions as alternative source of funds for loans thus increasing competition in the banking industry.

The level of competition in the banking industry is therefore very high to attract the retail customers as just their numbers comes in a big chunk of business either in form of deposit or loans. There has been a shift from waiting for the customers to come to the banks, to now the bank going out of its way to look for the customers. Commercial banks and microfinance institutions have now adopted strategic issue management to succeed in a world of competition. The performance of any organization is affected by the choice of strategies made (Mutuku, 2005). Hunger and Wheelen (1995), say that strategies which are set of managerial decisions and actions determine the long term performance of an organization.

In developing a conceptual framework, firms compete best in the market if they can measure external as well as internal factors. Among the internal and external factors are; resources, capability and environment. The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. Resources can constrain development and expansion of an organisation. As such, an enterprise must efficiently manage human, financial, social (government and community support), technological and physical resources. Organizational capability considers the management team's ability and also measures whether the personnel ability can be transformed into organizational capability. Microfinance institutions survival depends more on business conditions and measuring business environments i.e competitive, technological, industrial, economic and social is necessary.

1.1.1 Competitive Strategies

A competitive strategy is a search for a favourable competitive positioning in the industry. It is concern with how a company can gain advantage through a distinctive way of competing. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter 1985). Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Okutoyi (1992) states that strategy has an important role in helping businesses position themselves in an industry. Therefore, developing a competitive strategy is to define broad formula on how business is going to compete, what its goals should be and what policies would be needed to carry out the goals.

According to Porter (1985), competitiveness is what the customer is willing to pay for. Thus, a first attempt to define competitiveness could be to take a look at value to the customer derived from the products and services of the firm. By identifying their core competences, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage, according to Johnson and Scholes (1997), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains. A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. Firms therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market.

According to Porter (1998), there are five competitive forces that determine competition in an industry: threat of new entrants; bargaining power of buyers; threat of substitute products; bargaining power of suppliers and rivalry among existing firms. In coping with the five forces, there are three potentially successful generic strategies to outperform other firms in an industry: overall cost leadership, differentiation and focus. These strategies can be applied universally to business in a wide variety of industrial setting; hence the term generic. The generic strategies are approaches to outperforming competitors in the industry.

1.1.2 Firm Performance

Performance is a measure of how well a process achieves its purpose. In a firm's management, Mouline (2003) defines an organization's performance as "how well the organization is managed" and the "value the organization delivers for customers and other stakeholder." The performance of any business organization is affected by the choice of strategies made. Hunger and Wheelen (1995) say that strategies which are set of managerial decisions and actions determine the long term performance of an organization. Different stakeholders require different performance indicators to enable them make informed decisions (Manyuru, 2005).

Measuring performance is a multi-dimensional concept. Traditional methods of measuring a company's performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). Currently, non-financial measures are at the core of strategy descriptions and are used to develop a unique set of performance measures that clearly that communicate business strategy (Kaplan and Norton, 1992). Neely *et al.* (1995) described performance measurement as the process of quantifying action, where measurement is the process of quantification and action correlates with performance. They further propose that performance should be defined as the efficiency and effectiveness of action. Based on this point of view, performance measurement has been defined as the process of quantifying the efficiency and effectiveness of action; or as a metric used to quantity the efficiency and/or effectiveness of an action. It has also been defined as the set of metrics used to quantify the efficiency and effectiveness of an action. Performance is therefore measured by both financial and non-financial measures. Roy and Goswami (2013) found out that Microfinance industry uses financial performance, outreach, sustainability, efficiency and social performance to measure overall performance.

1.1.3 Competitive Strategy and Performance

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for favorable competition position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter M. E, 1985).

Business performance is the total economic results of the activities undertaken by an organization. Performance in organizations takes many forms depending on whom and what the measurement is meant for. Different stakeholders require different performance indicators to enable informed decisions (Manyuru, 2005). Looking for consistency between strategy-actions-measures implies the use of financial and non-financial performance measures. If quality and time become essential strategic criteria, financial performance measure are effective to manage a company in the long-run. This does not mean that accounting data are not useful, but they to be complemented by non-financial performance measures. Ideally, the role of strategy is dynamic, involving managers in continually assessing the way it combines environmental conditions, technologies and structures to enhance performance.

1.1.4 The Micro Finance Institutions

In recent years, a growing number of developing countries including Kenya have embarked on reforming and deregulating their financial systems, transforming their institutions into effective intermediaries and extending viable financial services on a sustainable basis to all segments of the population (Seibel, 1996). Microfinance has emerged as that sub sector of the financial system which provides financial services to the micro economy, comprising alignments of the rural and urban population, including small scale farmers, micro entrepreneurs, women and the poor. This micro financial sector comprises local financial institutions, which may be formal, semiformal or informal. Furthermore, such institutions may be owned, fully or in part, by individuals, groups or organization in the micro-economy. Microfinance services include savings, loans, insurance, money transfers, remittances, etc.

MFIs are primarily established to provide business and consumption credit or bring financial services to the poor and vulnerable groups in the society with the ultimate goal of improving the living standards ore eradicating poverty. The microfinance organizations in Kenya are characterized by limited resources, therefore it is very important to focus on gaining competitive advantage to enable them compete effectively in the market. They need to identify their core competencies and concentrate on areas that give them a lead over competitors.

The general failure of large subsidized credit schemes inspired social entrepreneurs in developing countries to test alternative ways to offer credit to poor people. Beginning in the 1970s, experimental programs run through non-governmental organizations (NGOs) in Bangladesh, Bolivia, and a few other countries extended tiny loans to groups of poor women who could invest in micro-business. This type of micro enterprise credit was based on solidity group lending in which every member of a group guaranteed the repayment of all the other members (Customer and Government Annual Paper, 2003).

Throughout the 1980s and the 1990s, these NGO-based credit programs improved upon the original methodologies and bucked conventional wisdom about financing the poor. First, it was shown that poor people, especially poor women, repay their loans.

Near-perfect repayment rates, unheard of in the formal financial sectors of most developing countries, were common among the better credit programs. Second, the poor were willing and able to pay interest rates that followed MFIs to cover their costs. Third, the combination of these two features; high repayment and cost-covering interest rate enabled some MFIs to achieve long-term sustainability while reaching large numbers of clients. The promise of microfinance as a strategy that combines massive outreach, far reaching impact and financial sustainability makes it unique among development interventions.

The development of microfinance has benefited significantly from technical and financial assistance from bilateral and multilateral donor agencies in the last decade. Rukwaro (2001) in the study of credit rationing by Microfinance Institutions (MFIs) noted that the microfinance sub sector has emerged as an alternative source of credit to a large number of MSEs in Kenya. The study found that 20% of MFIs obtained their lending capital from donor agencies, 50% from internal operations, 25% from borrowing and 5% from member's deposits. It is further noted that internal operations involved operating revolving funds that were initially financed by donor agencies. Many of the MFIs rely on donor agencies for funding as they are not financially stable enough to access commercial funding Ledgerwood (1993).

1.2 Research Problem

Competition is always present in every industry hence all firms need competitive strategies to be able to cope as it is core for their success. Industry competition involves scrambling for market share within the industry but also firms producing substitutes. Competitive strategies are therefore aimed at having an edge over the competitors in the market place. Developing a competitive strategy is developing a/ or how a formula on how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals, Porter, (1979). Competition, in most cases, is believed to increase welfare of consumers by promoting allocative and productive efficiency, i.e lower productive costs and lower prices on goods and services. It also encourages the development of new products and efficient technologies (Motta, 2004).

From the set competitive strategies, the performance of the firm shall be measured by evaluating the extent it has achieved the proposed objectives using resources economically in the face of stockholders, competitors and society. Nanni et al. (1990) defined performance measurement as "a means of monitoring and maintaining organizational control which is the process of ensuring that an organization pursues strategies that lead to the achievement of overall goals and objectives". The function of performance management can be evolved to the function of a strategic management tool. As described by Neely, Adams et.al. (2001), the role of performance measure is four-fold: first, to help managers to track whether or not the strategies they have chosen are actually being implemented; second, to help managers to communicate these strategies within the organization; third, to encourage implementation of strategy; and fourth, to analyse whether the strategies are working as planned.

Microfinance is the provision of financial services to the poor people with very small business or business projects (Otero, 1999). Microfinance programmes have an explicit social agenda, but face challenge of keeping the financial and social missions from becoming muddled. The current operational set-up in Kenya's microfinance industry is a turbulent one and highly competitive market condition. The commercial opportunity in microfinance is attracting the interest of mainstream banking sector. The February 2005 issue of The Banker magazine carried a special feature on microfinance. The editorial column of this issue stated that "Bankers are just realizing that the poor have needs just like anyone else and that giving them an opportunity to help themselves not only works, but can open up a global financial markets to an entirely new customer market and asset class" (p.5). The Kenyan environment has not been any different form the observed world-wide trend. As more competition enters microfinance markets and donors demand for more accountability, performance is a prime concern. Moreover large commercial banks increasingly see micro lending as a profitable market niche (Richardson, 2000). In a fast changing market, organizations have to identify the business environment that has changed, and then realign their strategic responses in order to cope with these changes in the market (Peters, 1990). Competition for micro enterprises clients will improve product design, delivery system and perhaps even outreach. Micro finance institutions have been adopting different competitive strategies in the last five years to respond to the changes in their operating environment. In order to evaluate whether these competitive strategies being adopted by micro finance institutions are meeting their objectives, it is essential to examine the performance of the microfinance institutions against the set competitive strategies.

Locally a number of studies have been carried on area of competitive strategies Micro and Finance Institutions have focused on themes such as: Responses of MFIs to HIV/AIDS crisis in Kenya (Nderitu, 2006); Differentiation strategies used in MFIs in Kenya (Wanjiku,2005); Jowi (2006) focused on competitive strategies employed by Sugar Manufacturing firm in Kenya; Competitive strategies and performance of commercial banks in Kenya (Oyiela, B.M 2011); Githinji (2009) studied the factors that influence sustainability of MFI's in Kenya; Mulandi (2010) explored the factors that determine profitability of MFI's in Kenya where he concluded that factors such as information technology, Capital size, size of credit among other affect profitability; Gichura (2011) researched on the determinants of Financial performance of MFI's in Kenya where the focus was on financial measures; Inability of people with disabilities in Kenya to access credit and saving products of MFIs (Mutsotsi, 2005). Taking into account the above studies none of them has linked competitive strategies to organizational performance. This study seeks to fill this knowledge gap. Also, the researcher is not aware of any research that was carried out on Microfinance institutions in Kenya regarding competitive strategy and performance. The researcher seeks to address the following question: what is the relationship between competitive strategies and performance of micro-finance firms in Kenya?

1.3 Objective of the Study

To establish the relationship between competitive strategies and performance of microfinance institutions in Kenya.

1.4 Value of the Study

The MFIs will be able to know how their competitive strategies are assisting in their growth. This will act as a basis upon which improvement can be made in service delivery. The MFIs will therefore be in a position to select appropriate strategies to ensure that they improve their performance. Investors will also use the information to make decisions regarding investments in the industry.

The research will generate more current statistics that the government could utilize to analyse the microfinance industry. The government will therefore be able to know how the MFIs are assisting in the alleviation of poverty. The accessibility of credit and its sustainability by the poor Kenyans will come into light. The Association of Microfinance Institutions of Kenya (AMFI) will be able to use the results of the study in developing capacity building and support programs.

The study will contribute to the general body of knowledge to enhance the understanding of Microfinance sector and performance for researchers and academicians who will use the same as source of reference. The findings of this study can be compared with strategic management practices in other sectors that may be under taken in the same field.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from the available literature in the same field of study. The specific areas covered here are theoretical frameworks and the link between competitive strategy and performance.

2.2 Theoretical foundation

According to Kilbourn (2006), the theoretical perspective in a research reflects the researcher's theoretical orientation, which is crucial to interpreting the data in qualitative, irrespective of whether it is explicit or implicitly stated. In other words, theoretical perspective plays a role as the filter for focusing and bounding the data to be collected. This study will be anchored on the resource based view, dynamic capability theory and agility theory.

2.2.1 Resource-based View

Resource-based view has become one of the most influential and cited theories in the history of management theorizing. It aspires to explain the internal sources of a firm's sustained competitive advantage (Kraaijenbrink, Spender & Groen, 2010). It was Penrose who established the foundations of the resourced-based view as a theory (Roos & Roos, 1997). Penrose first provides a logical explanation to the growth rate of the firm by clarifying the causal relationships among firm resources, production capability and performance. Her concern is mainly on efficient and innovative use of resources. She claimed that bundles of productive resources controlled by firms could vary significantly by firm, that firms in this sense are fundamentally heterogeneous even if they are in the same industry (Barney & Clark, 2007).

According to Resource Based Theory (RBT), human capital is considered to be a source of competitive advantage for entrepreneurial firms. Ownership of firm-specific assets enables a company to develop a competitive advantage. Sustainable competitive advantage results from resources that are inimitable, not substitutable, tacit in nature, and synergistic (Barney, 1991). Therefore, managers need to be able to identify the key resources and drivers of performance and value in their organizations.

The RBT also states that a company's competitive advantage is derived from the company's ability to assemble and exploit an appropriate combination of resources. Such resources can be tangible or intangible, and represent the inputs into a firm's production process; such as capital, equipment, the skills of individual employees, patents, financing, and talented managers. As a company's effectiveness and capabilities increase, the set of available resources tends to become larger. Through continued use, these "capabilities", defined as the capacity for a set of resources to interactively perform a stretch task or an activity, become stronger and more difficult for competitors to understand and imitate. Research and Development expenditures can be used to augment future production possibilities (Rylander, 2001).

As Grover et al. (1998) explain, "the essence of a resource-based theory is that given resource heterogeneity and resource immobility and satisfaction of the requirement of value, rareness, imperfect imitability, and non-substitutability, firms' resources can be a source of sustained competitive advantage" (p.84). Resource based theory treats enterprises as potential creators of value-added capabilities. Understanding the development of such capabilities and competences involves viewing the assets and resources of the firm from a knowledge-based perspective (Conner and Prahalad, 1996; Prahalad and Hamel, 1990). Prahalad and Hamel (1990) concentrate their attention on the collective learning processes of the organization, on the development of skills and technology integration. Their concept of "core competences" is related to mechanisms by which firms learn and accumulate new skills in order to develop business capabilities to outperform competitors. One of the objectives of the theory is to help managers to appreciate why competences can be perceived as a firms' most valuable asset and, at the same time, to understand how those assets can be used to improve business performance. A resource-based view of the firm accepts that attributes related to past experiences, organizational culture and competences are critical for the success of the firm (Campbell and Luchs, 1997; Hamel and Prahalad, 1996). Conner (1991) suggests that an in-house team is likely to produce technical knowledge, skill, or routine that fits better with the firm's current activities.

2.2.2 Dynamic Capability Theory

The Resource Based view of the firm.Barney (1991) argues that organizations possess resources such land, labour, capital and information assets that enable them to achieve competition advantage and super long-term performance. Barney's (1991) defines firm resources as "all assets, capabilities, organizational processes, firm attributes, information, knowledge controlled by a firm that enables the firm to conceive and implement strategies that improve its efficiency and effectiveness". The conceptualization of dynamic capabilities encompasses market dynamism as an influential factor for firm capability development and evolution (Eisehardt and Martin 2000). Trispsas (1997) illustrated that radical innovation in typesetter industry was a major factor of market dynamism. Firms with higher dynamic capabilities develop technological capability and adapt themselves accordingly.

Furthermore, Eisehardt and Martin (2000) define dynamic capabilities as the "the firm's processes that uses resources, specifically the processes to integrate, reconfigure, gain and release resources to match and even create market change". The organizational and strategic routines, by which firms achieve new resources and configuration as markets emerge, collide, split, evolve and die. Adaptive capability is defined as a firm's ability to identify and capitalize on emerging market opportunities (Miles and Snow 1997). Chakravanthy (1982), distinguishes adaptive capability from adaptation. The later describes an optimal end state of survival of a firm while adaptive capability focuses more on effective search and balancing exploration and exploitation strategies. This type of 'balancing' act is brought to strategic level and linked to the resources perspective; adaptive capability is manifested through strategic flexibility, the inherent flexibility of resources available to the firm and the flexibility in applying these resources (Sanchez, 1995). Firms that have high levels of adaptive capability exhibit dynamic capabilities (Teece et al., 1997).

Cohen and Levinthal (1990) refer to absorptive capacity as the ability of the firm to recognize the value of new, external information, assimilate it and apply it to commercial ends that is the ability to evaluate and utilize outside knowledge is largely a function of the level of prior knowledge. Firms with higher absorption capability demonstrate stronger ability of leaving from partners, integrating external information and transforming it into firm-embedded knowledge.

2.2.3 Agility and Flexibility Theory

Agility is a comprehensive response to the business challenges of profiting from rapidly changing, continually fragmenting, global markets for high-quality, high-performance, customer-configured goods and services (Bernardes and Hanna 2009). Agility is an overall strategy focused on thriving in an unpredictable environment and a response complexity brought about by constant change. Business Agility is a management concept to cope with the competition, business practices and corporate structures of the twenty-first century. A firm agility builds upon other concepts in business which include; dynamic capabilities (Teece et al. 1997), market orientation (Kohli and Jaworski, 1990), absorptive capacity (Cohen and Levinthal, 1990) and strategic flexibility (Ansoff, 1980). Gold et al. (1991) defined agility as the ability to thrive in a competitive environment of continuous and unanticipated change and to respond quickly to the rapidly changing fragmenting global markets that are served by networked competitors with routine access to a worldwide production system are driven by demand for high -quality, high performance, low-cost customer configured product and services. Meredith and Francis (2000) view agility as "the organization's capacity to gain competitive advantage by intelligently, rapidly and proactively seizing opportunities and reacting to threats".

Flexibility refers to an organization's ability to meet an increasing variety of customer expectations without excessive costs, time, organizational disruptions, or performance losses (Bernardes and Hanna 2009). Das (1996) defines flexibility as the ability of a system or a facility to adjust to changes in its internal or external environment. A system is more flexible, if it can handle a wider range of change, if it has a greater number of options to counter the effect of change/uncertainty, if it can attain new state, in a shorter time, at a lesser cost and with lesser effort. Performance of the system is less if it can change its flexibility based on specific needs in an easier manner. Flexibility changes are responses to known situations where the procedures are already in place to manage the change. Agility extends the capability of flexibility by requiring the ability to respond to unpredictable changes in the market or customer demand. A firm must be sufficiently competent at being able to manage changes to well defined conditions before it can extend its capabilities to responding to unforeseen changes. From this perspective flexibility is a pre-requisite to become agile.

Microfinance institutions must be agile that is once they are committed to managing business on commercial basis; competition quickly becomes the hallmark of the environment in which they operate. Environmental influences that affect MFIs comes from; economic factors that influence the product and services they provide, Technological changes influence their performance, industry changes, strategic partners actions, competitors factors and geographical factors will affect the sector. To be effective and efficient, an enterprise system needs to be flexible, that is cover a certain range of functions and features and allow for variation over time (Allen and Boynton, 1991).

2.3 Competitive Strategy and Performance

There are as many definitions of the word "competitive strategy" as there are many authors, hence no universal meaning exist. The definition of competitive strategy by Michael Porter is adopted as the study will draw heavily from his works. Johnson and Scholes (2002), state that competitive strategy is the basis on which a business might achieve competitive advantage in the market place. Thompson et. al. (2007) added that competitive advantage to above average profitability and financial performance. This he attributes to strong buyer preference for company's products translating into higher sale volumes or ability to command higher prices, thus driving up earnings, return on investment and other non-financial indicators. Industry competition is influenced by factors beyond the traditional boundaries; this applies also to microfinance industry. Competition among microfinance companies in Kenya is still due to the number of players and the size of the market, hence there is need for each company to use competitive strategies, whether generic or not in order to succeed.

The concept linking company competitive strategy to performance was introduced by Barney, (2002). Their research and experience with clients demonstrated that what distinguishes high performers from their competitors is the consistent way they construct and maintain this competitive essence. While many companies compete on the basis of a single point of differentiation, the competitive essence of high performers is almost always achieved through the balance, alignment and renewal of what they identified as the three building blocks of high performance; market focus and position, distinctive capabilities and performance anatomy Barney (2002).

Firm's performance is the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Performance also refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. It is the outcome of all of the organisation's operations and strategies (Venkatraman and Ramanujam, 2001). It is also the extent to which an individual meets the expectations regarding how he should function or behave in a particular context, situation, job or circumstance. Oakland (1999) is of the view that performance is what people do in relation to organizational roles (Brealey Myers, monitoring and maintaining organization control which is a process of ensuring that an organization pursues strategies that lead to the achievement of overall goals and objectives". Amaratunga and Baldry (2002) provided a more specific definition of performance measurement: "Measurement provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, helps to identify areas of strengths and weaknesses, and decides on future initiatives, with the goal of improving organisational performance."

Kaplan and Norton (2001) introduced the balanced scorecard as a more realistic measure of performance. The balance scorecard defines a strategy's cause-and–effect relationships and provides a framework to organizing strategic objectives into the financial perspective in line with the vision and mission. Key items linked are financials, customer service and satisfaction index, learning and growth within the organization and internal business processes. Internal business process is the path to achieving strong financial results and superior customer satisfaction. Though the balanced scorecard is widely lauded, numerous authors have identified shortcomings. Some of the shortcomings are as follows; the balance scorecard neglects the fundamental question – the competitor perspective (Neely, Gregory et al.1995), the approach used by used the balance scorecard is not consistent with a complete performance measurement system; rather, it merely provides senior managers with a tool to monitor performance against strategic and operational objectives (Gomes, Yasin et al.2004).

Pearce and Robinson (2007) highlight three economic goals, which define a company's performance guided by strategic direction. These goals are survival in the market, growth and profitability. A firm's growth is tied inexplicitly to its survival and profitability. The financial performance of institutions is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies. According to Barney (2002) the common assumption, which underpins much of the financial performance research and discussion, is that increasing financial performance will lead to improved functions and activities of the organizations. The subject of financial performance and research into its measurement is well advanced within finance and management fields. It can be argued that there are three principal factors to improve financial performance for financial institutions; the institution size, its asset management, and the operational efficiency.

Performance measures communicate organization's objectives and goals to the employees, monitor their progress and provide a feedback on their efforts to senior management. Thus, performance measures play an important role in translating organization's strategy into desired behaviours and results (Anthony and Govindarajan, 2007). Traditional performance measures focused on key financial measures but due to changes in the operating environment social aspects of the MFI's was considered. So, social performance was added along with the financial performance. Roy and Goswami(2013), proposed that when evaluating the performance of MFIs, a conceptual model which takes into account eight possible dimensions is used. This approach is more likely to give a holistic viewpoint of the overall performance of an MFI. Therefore, the performance measures adopted for this study are; issues of MFI sustainability, outreach, financial and social performance, efficiency and productivity, institutional characteristics and governance.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the various stages used in carrying out the research, in order to meet the objectives of the study. The stages include research design, population, data collection and data analysis.

3.2 Research Design

The study assumes an empirical cross sectional survey design. The survey design is appropriate for the study because it facilitates of data across large number of organisations at one point in time. Furthermore, it allows for comparative analysis.

3.3 The population

The population of interest in this study will consist of member firms of the Association of Microfinance Institutions, (AMFI). There are currently a total of 61 members of AMFI. Microfinance institutions that are members of this association are listed in appendix III.

3.4 Data Collection

For the purpose of collecting primary data the researcher will use a semi-structured questionnaire. The questions will be structured in such a manner as to elicit from the respondents the competitive strategies adopted by the organization in the recent past and will distributed to the senior managers of MFIs, such as Chief Executive Officers (CEO) and Operations managers whose positions and roles gives them ability to respond effectively to the question.

Secondary data was also used where available to measure performance of MFI's. Specifically, secondary data was collected on company's portfolio quality indicators, productivity and efficiency ratios, financial viability indicators, profitability indicators, leverage and capital adequacy ratios and scale and depth of outreach indicators. These were obtained from financial statements of companies. This involved perusal of the balance sheet, the profit and lost statement as well as the cash flow statement.

3.5 Data Analysis

Descriptive statistics was used to analyse the data received from MFIs. This consisted of percentages, frequency distributions and measure central of tendency such as mean and standard deviation. To determine the link between competitive strategies and performance of MFIs, linear and multiple correlation analysis was used to ascertain whether there is a significant relationship between competitive strategies and performance.

CHAPTER FOUR
RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

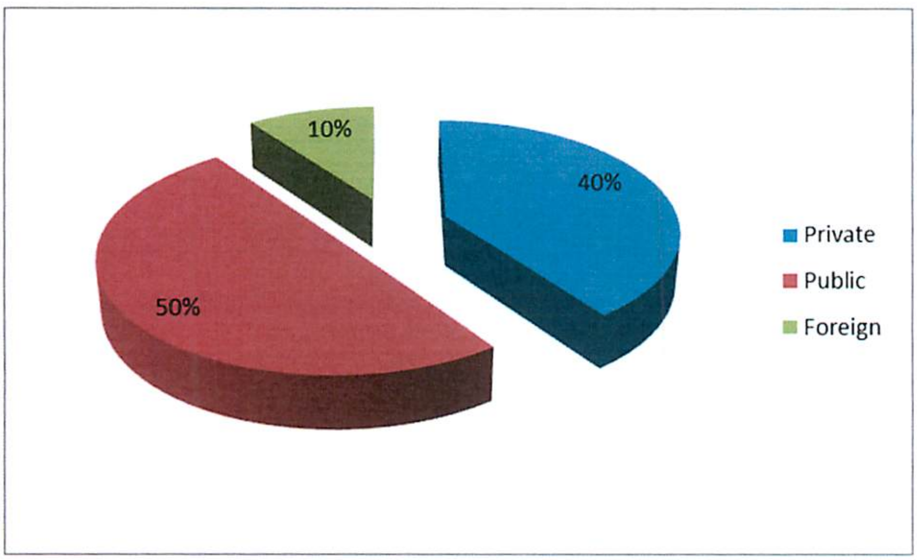
This chapter presents the findings of the study. The findings were presented as per the objective of the study which was the relationship between competitive strategies and performance of microfinance institutions in Kenya.

4.2 General Information

4.2.1 Ownership

The study sought to find out the type of ownership of the institutions and from the findings shown in Figure 4.1 below, 50% of the firms are publicly owned, 40% are privately owned while 10% indicated were foreign-owned.

Figure 4.1: Ownership

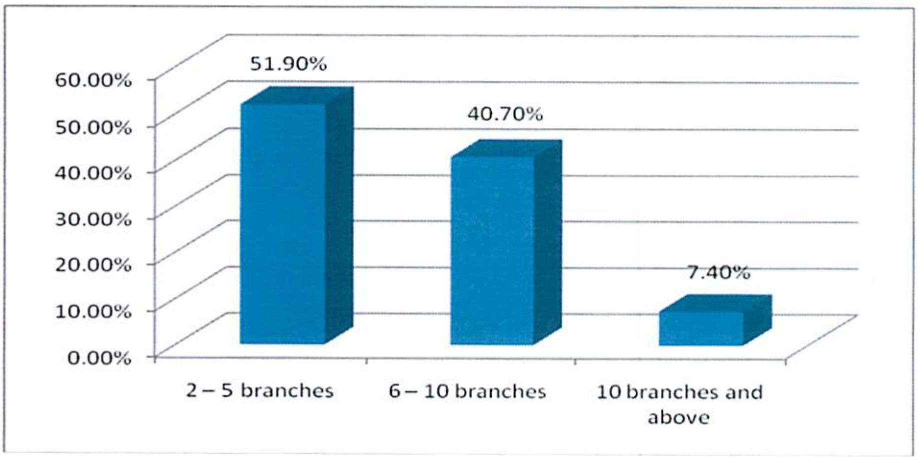


Source (Author, 2014)

4.2.2 Size of MFI

The study sought to find out the size of MFI in terms of branches and from the findings shown in Figure 4.2 below, 51.9% have 2 - 5 branches , 40.7% have 6 - 10 branches while 7.4% of the respondents have 10 branches and above.

Figure 4. 2: Size of MFI

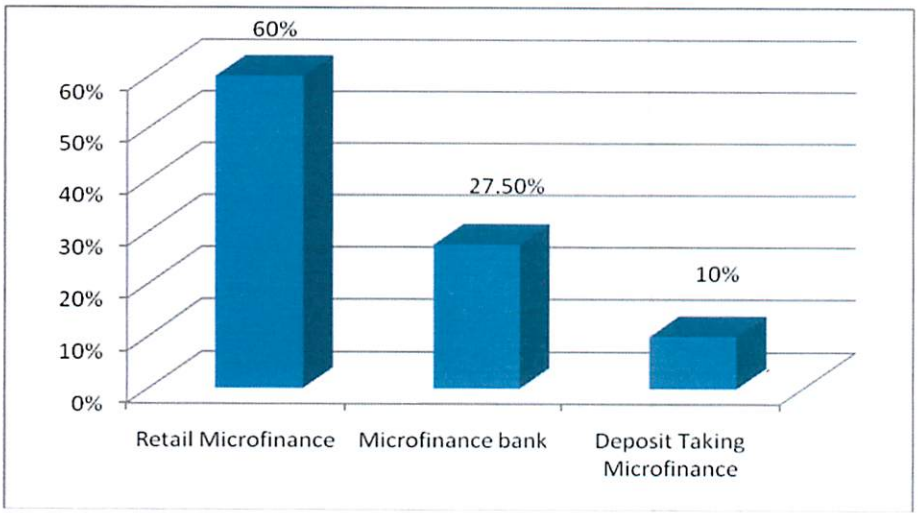


Source (Author, 2014)

4.2.3 Nature of Business

The study sought to find out the nature of their business. The findings shown in Figure 4.3 below, 60% of the firms are retail microfinance, 27.5% indicated microfinance bank while 10% of the respondents are Deposit Taking Microfinance institutions.

Figure 4.3: Type of MFI

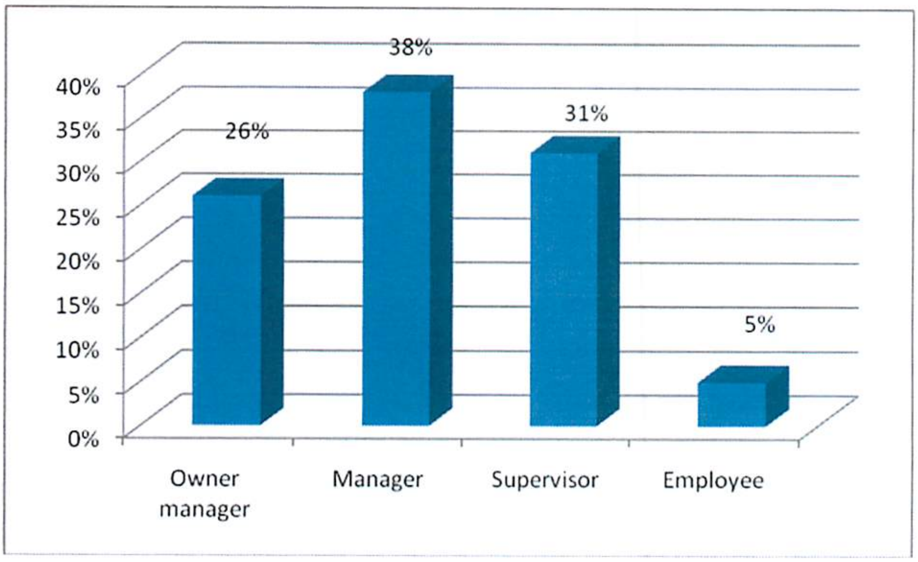


Source (Author, 2014)

4.2.4 Job Position in the Institution

The study sought to find out the position of the person filling the questionnaire and from the findings 26% of the respondents were owner manager, 38% were managers,31% were Supervisors while 5% of the respondents were employee as shown in Figure 4.4 below.

Figure 4.4: Job Position in the Institution



Source (Author, 2014)

4.3 Competitive Strategies Employed by MFIs

4.3.1 Cost Leadership Strategies

The study sought to find out the extent to which MFIs used Cost leadership strategies to remain competitive in the market. As shown in Table 4.1 below, the average response was 3.93 in the likert scale, this is approximately 4.0 (great extent). This implies that that the Cost Leadership strategies are employed to a greater extent by MFIs. Continuous search for cost reduction without sacrificing quality and essential features of products/services as indicated by a mean of 4.5 out of a total of 5.0. Respondents further indicated that their institutions Enhance process efficiencies to a very great extent, Enhanced leveraging on IT to deliver value e.g use of mobile banking and Fee charged lower than other Microfinance institutions, Volume sale/Maximising economies of scale as cost leadership strategies to remain competitive in the market as indicated by a mean of 4.2, 3.93, 3.9 and 3.7 respectively. Finally the respondents indicated that to a moderate extent institution use of Offering products and services to a broader customer segment as a competitive strategies to remain competitive in the market as indicated by a mean of 3.37.

Table 4.1: Cost Leadership Strategies Employed

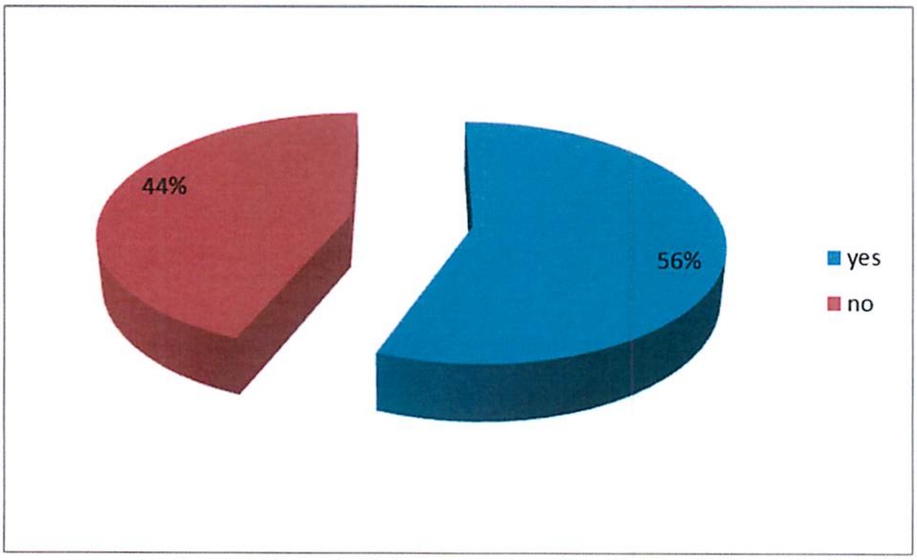
Cost leadership strategy	**1 Not at all**	**2 Little extent**	**3 Moderate extent**	**4 Great extent**	**5 Very great extent**	**Mean**	**Standard deviation**
	%	%	%	%	%		
Fees charged lower than other Microfinance institutions	35	56.1	2	6.8	0.1	3.9	1.9
Volume sale/Maximising economies of scale	35	44	8	10	3	3.7	0.5
Continuous search for cost reduction without sacrificing quality and essential features of products/services	48.1	40	7.9	1	3	4.5	0.2
Enhance process efficiencies	29.7	32.7	13.2	18.5	5.9	4.2	0.6
Leveraging on IT to deliver value e.g use of mobile banking	0	3.7	22.2	51.9	22.2	3.93	0.78
Offering products and services to a broader customer segment	0	0	7.4	48.1	44.4	3.37	0.63
Overall						**3.93**	**0.768**

Source (Author, 2014)

4.3.2 Other Cost Reduction Strategies

The respondents were ask to indicate any other cost reduction strategies used by their firms and the findings are presented in Figure 4.5 below. As shown in the figure 56% of the firms have other cost reduction strategies while 44% do not have such strategies.

Figure 4.5: Other Strategies used to reduce costs



Source (Author, 2014)

4.3.3 Differentiation Strategy

The study sought to find out the extent to which MFIs used differentiating strategies to remain competitive in the market. As shown in Table 4.2 below, the average response was 3.825 in the likert scale, this is approximately 4.0 (great extent). This implies that that differentiating strategies are employed to a greater extent by MFIs. Respondents agreed to a very great extent that institution used unique products/services for which customers are willing to pay more as a differentiation strategy to remain competitive in the market as indicated by a mean of 4.7 as in in. Further respondents agreed to a great extent that institution used Innovative products and process re-engineering and corporate image as differentiation strategies to remain competitive in the market as indicated by a mean of 4.3 and 3.9 respectively. Finally respondents disagreed that institution used Service quality and Customer care as strategy to remain competitive in the market as indicated by a mean of 2.4.

Table 4.2: Differentiation Strategies Employed

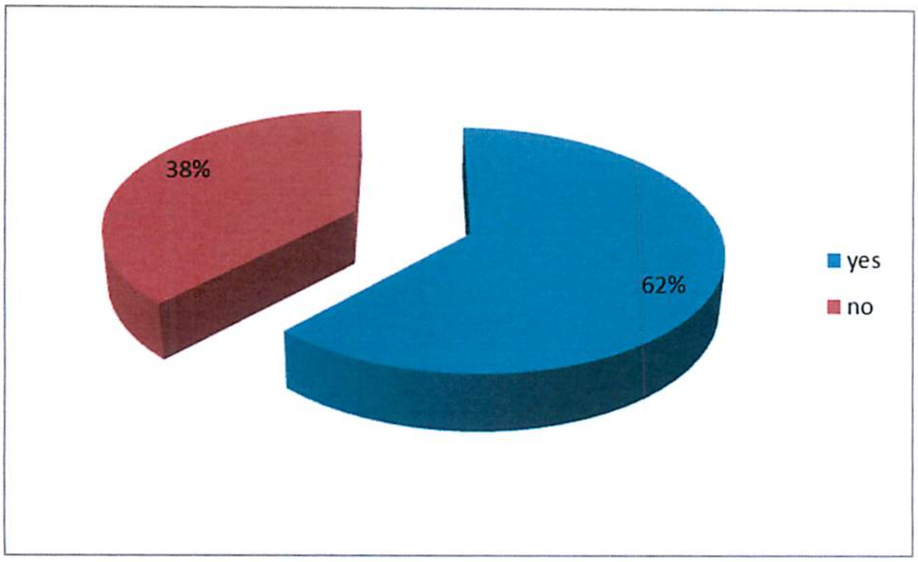
Differentiation strategy	1 Not at all	2 Little extent	3 Moderate extent	4 Great extent	5 Very great extent	Mean	Standard deviation
	%	%	%	%	%		
Unique products/services for which customers are willing to pay more	1.5	23	5.1	7.1	63.3	4.7	0.3
Innovative products and process re-engineering	7	10.1	9.1	34	39.8	4.3	0.2
Service quality and Customer care	57.1	23.6	8.2	6.1	5	2.4	0.3
Use of corporate image as a selling point	30	31.2	14.3	19.4	5.1	3.9	0.3
Overall						**3.825**	**0.275**

Source (Author, 2014)

4.3.4 Other Differentiation strategies Employed

The respondents were asked to indicate any other differentiating strategies used by their firms and the findings are presented in Figure 4.6 below. As shown in the figure 62% of the firms have other differentiating strategies while 38% do not have other strategies to differentiate its Products.

Figure 4.6: Other Strategies used to differentiation of its Products



Source (Author, 2014)

4.3.5 Focus Strategy

The study sought to find out the extent to which MFIs used focus strategies to remain competitive in the market. As shown in Table 4.3 below, the average response was 3.4 in the likert scale, this is approximately 3.0 (moderate extent). This implies that that focus strategies are employed to a moderate extent by MFIs. Respondents agreed to a great extent that concentrating in one market; identified a specific niche in the market and focus on products and services not offered by competitors are used as Focus strategy to remain competitive in the market as indicated by a mean of 4.1, 3.6 and 3.5 respectively. Further respondents disagreed that Custom made product and services to corporate customers as indicated by a mean of 2.4.

Table 4. 3: Focus Strategies Employed

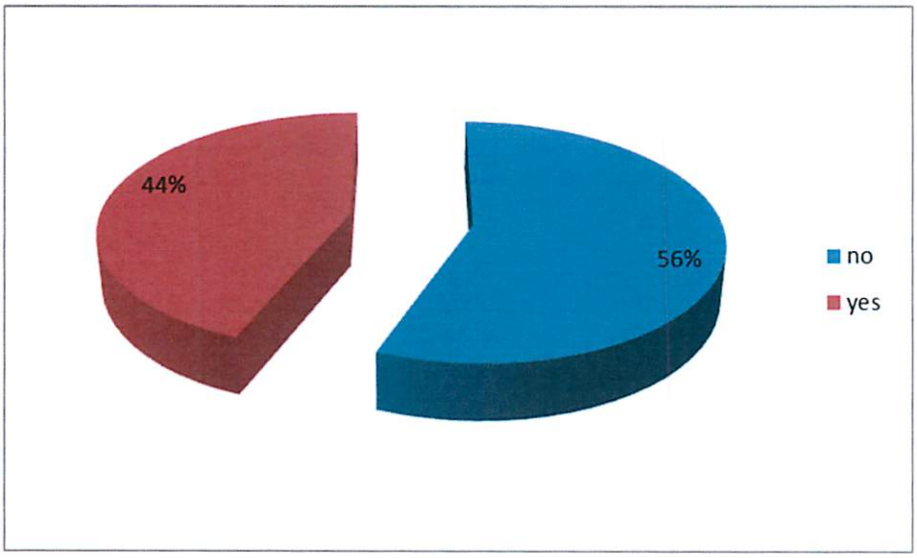
Focus strategy	1 Not at all	2 Little extent	3 Moderate extent	4 Great extent	5 Very great extent	Mean	Stan. Dev.
	%	%	%	%	%		
Focus on products and services not offered by competitors	2	2	10	38	48	3.5	0.8
Custom made product and services to corporate customers	19	21	13	22	25	2.4	0.9
Identified a specific niche in the market	8	9	26	33	24	3.6	0.7
Concentrating in one market	30	21	33	9	7	4.1	1.8
Overall						**3.4**	**1.05**

Source (Author, 2014)

4.3.6 Other Focus Strategies Employed

The respondents were asked to indicate any other focus strategies used by their firms and the findings are presented in Figure 4.7 below. As shown in the figure 56% of the firms have other differentiating strategies while 44% do not have other strategies to focus on particular market.

Figure 4.7: Other Focus Strategies Employed



Source (Author, 2014)

4.4 Linear Regression Analysis

4.4.1 Effect of Cost Leadership Strategy on Firm Performance

The linear regression analysis models show the relationship between the dependent variable which is performance of microfinance institutions in Kenya and independent variable which is cost leadership strategies. The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between competitive strategies and performance of microfinance institutions in Kenya. From the linear regression model summary in table 4.4 below cost leadership strategies accounts for 87.6 percent of the variation in performance of microfinance institutions in Kenya. Therefore it can be inferred statistically that cost leadership strategies have positive relationship on performance of microfinance institutions in Kenya.

Table 4. 4: Linear Regression Analysis of the effect of Cost Leadership Strategy on firm performance

Model	R	R Square	Adjusted R Square
1	.876[a]	.838	.808

a. Predictors: (Constant), Cost Leadership Strategies

Source (Author, 2014)

Table 4.5 below shows the Unstandardized Coefficients of the model which has an intercept of .046 and a slope of 0.475. Therefore this is an indication that cost leadership strategies have a positive gradient on performance of microfinance institutions in Kenya as depicted by linear regression.

$Y= .046+ 0.475\ X_1.$

The unstandardized coefficient of .046 reveals a positive relationship between cost leadership strategies and microfinance institutions performance in Kenya.

Table 4. 5: Coefficient of the effect of Cost Leadership strategy on firm performance

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	.046	.371	.095	.824
	Cost leadership strategies	.475	.032	9.351	.000

Source (Author, 2014)

The analysis indicates there was positive gradient which reveals that an increase in cost leadership strategies lead to increased performance Therefore, it can be concluded that cost leadership strategies is a key significant variable on performance of microfinance institutions in Kenya.

4.4.2 Effect of Differentiation Strategy on Firm Performance

The linear regression analysis models show the relationship between the dependent variable which is performance of microfinance institutions in Kenya and independent variable which is differentiation strategy. The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between competitive strategies and performance of microfinance institutions in Kenya. From the linear regression model summary in table 4.5 below, differentiation strategies accounts for 93.6 percent of the variation in performance of microfinance institutions in Kenya.

Table 4. 6: Linear Regression Analysis of Differentiation Strategies

Model	R	R Square
1	.936[a]	.768

a. Predictors: (Constant), differentiation strategy

Source (Author, 2014)

Table 4.7 shows the Unstandardized Coefficients of the model which has an intercept of .076 and a slope of .555. Therefore this is an indication that differentiation strategies have a positive gradient on performance of microfinance institutions in Kenya as depicted by linear regression

$Y= .076 + .555 X_1$

The unstandardized coefficient of .555 reveals a positive relationship between differentiation strategies and microfinance institutions in Kenya.

Table 4.7: Coefficient of effect of Differentiation Strategy on firm performance

Model		B	Sig
1	(Constant)	.076	.354
	Differentiation strategy	.555	.000

Source (Author, 2014)

The analysis indicates there was positive gradient which reveals that an increase in differentiating strategies lead to higher performance. Therefore it can be concluded that differentiating strategies are key significant variable on performance of microfinance institutions in Kenya.

4.4.3 Effect of Focus Strategy on Firm Performance

The linear regression analysis models show the relationship between the dependent variable which is performance of microfinance institutions in Kenya and independent variable which is focus strategy. The coefficient of determination (R^2) and correlation coefficient (R) shows the degree of association between focus strategies and performance of microfinance institutions in Kenya. From the linear regression analysis summary in table 4.8 below shows that focus strategies accounts 88.1 percent of the variation in performance of microfinance institutions in Kenya.

Table 4. 8: Linear Regression Analysis Focus Strategies

Model	R	R Square
1	.881[a]	.668

a. Predictors: (Constant), focus strategies

Source (Author, 2014)

Table 4.9 shows the Unstandardized Coefficients of the model which has an intercept of .096 and a slope of .751. Therefore this is an indication that focus strategies have a positive gradient on performance of microfinance institutions in Kenya as depicted by linear regression

$Y = .096 + .751\ X_1$

The unstandardized coefficient of .751 reveals a positive relationship between focus strategies and microfinance institutions in Kenya.

Table 4. 9: Coefficient of effect Focus Strategy on firm performance

Model		Standardized Coefficients
		B
1	(Constant)	.096
	Focus Strategy	.751

Source (Author, 2014)

The analysis indicates there was positive gradient which reveals that an increase in focus strategies lead to increased performance. Therefore it can be concluded that focus strategies is a key significant variable on performance of microfinance institutions in Kenya.

4.5 Multiple Regression Analysis

After considering each independent variable singly, a multi- regression of all the variables considered together was computed. The multiple regression analysis of the study was given as shown in the Table 4.12 below, the model shows that 95.7% of the variables that show relationship between competitive strategies and performance of microfinance institutions in Kenya.

Table 4.8: Multiple Regression Analysis

Model	R	R Square
1	.978[a]	.957

Source (Author, 2014)

The analysis shows that, cost leadership strategies, differentiation strategy and focus strategy affect performance of microfinance institutions in Kenya. The analysis had significance value of 0.00 which indicates that these are important practices as far as performance of microfinance institutions in Kenya. As shown in the Table 4.9 below, Cost leadership strategies had the highest β value of .086, Differentiation strategy had a β value of .036 and had the least influence performance of microfinance institutions in Kenya, while Focus strategy affect had a β value of .067.

Table 4.10: Correlation Coefficient of Multiple Regression Analysis

Model		Standardized Coefficients		Sig
		B	Beta	
1	(Constant)	.447		0.002
	Cost leadership strategies	.086	.217	0.000
	Differentiation strategy	.036	.132	0.003
	Focus strategy	.067	.207	0.001

Source (Author, 2014)

a. Dependent Variable: performance of microfinance institutions in Kenya

Thus, the study's model was as follows:

$Y= 0.447 +0.086 X_1 +0.036 X_2 +0.067 X_3 + 0.176$

Where, 0.447 represents the value of performance of microfinance institutions in Kenya.

Y= performance of microfinance institutions in Kenya

X_1= Cost leadership strategies

X_2 = Differentiation strategy

X3=Focus strategy

4.6 Discussion

The study established that there exist a relationship between generic competitive strategies and performance of microfinance institutions in Kenya. From the findings it can be concluded that continuous implementation of generic competitive strategies will lead to higher level of performance of microfinance institutions in Kenya. Competitive strategies enable MFIs to evaluate future challenges in the industry. Focus strategies was found to be the least linearly dependent with the performance of microfinance institutions in Kenya. The study also found out that, most microfinance institutions use focus strategies which include specific accounts that favours women attracting them to the banks to open bank accounts that leads to multiple deposition thereby increasing performance of the institution.

Also the study found from the linear regression model summary in table 4.6 that differentiation strategies account for 93.6 per cent of the variation in performance of microfinance institutions in Kenya. Therefore it can be inferred statistically that the differentiations strategies have the highest positive relationship on performance of microfinance institutions in Kenya.

The analysis indicates there was positive gradient which reveals that an increase in cost leadership strategies lead to improved performance. The study relates to those of (Tangen, 2003), who discusses positive relationship between competitive strategies and performance.

Also this collates with Okutoyi (1992) study which concluded that strategy has an important role in helping businesses position themselves in an industry. Therefore, developing a competitive strategy is to define broad formula on how business is going to compete, what its goals should be and what policies would be needed to carry out the goals. The finding conquers with (Herold, 1972) in his study on Long-range planning and organizational performance who found out that product differentiation among others is a contribution factor to performance of institutions.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to establish the relationship between competitive strategies and performance of microfinance institutions in Kenya.

5.2 Summary of the Findings

5.2.1 Cost leadership strategy

From the findings, respondents indicated that to a very great extent institution used continuous search for cost reduction without sacrificing quality and essential features of products/services. Respondents further indicated that to a great extent institution enhanced process efficiencies; Leveraging on IT to deliver value e.g use of mobile banking and Offering products and services to a broader customer segment.

From the linear regression model summary in table 4.1 cost leadership strategies accounts for 87.6 percent of the variation in performance of microfinance institutions in Kenya. Therefore it can be inferred statistically that cost leadership strategies have positive relationship on performance of microfinance institutions in Kenya

5.2.2 Differentiation strategy

From the findings respondents agreed to a very great extent that institution used unique products/services for which customers are willing to pay more as a differentiation strategy to remain competitive in the market. Further, respondents agreed to a great extent that institution used innovative products and process re-engineering and corporate image as differentiation strategies to remain competitive in the market. Finally respondents disagreed that institution used Service quality and Customer care as strategy to remain competitive in the market.

From the linear regression model, summary in table shows that differentiation strategies accounts for 93.6 per cent of the variation in performance of microfinance institutions in Kenya. Therefore it can be inferred statistically that differentiations strategies have positive relationship on performance of microfinance institutions in Kenya.

5.2.3 Focus strategy

Finally the study found out that to a great extent; concentrating in one market; identified a specific niche in the market and focus on products and services not offered by competitors are used as Focus strategy to remain competitive in the market. Further respondents disagreed that Custom made product and services to corporate customers. Custom made product and services to corporate customers are key ingredients to performance of performance of microfinance institutions in Kenya.

Therefore it can be inferred statistically that between focus strategies have positive relationship on performance of microfinance institutions in Kenya.

5.2.4 Influence of Competitive Strategies to Performance of MFIs

The study also established that correlation between competitive strategies and firm performance indicators recorded significant strong positive relationship. Where the performance variables considered were Increase on Return on Equity; Increase on Return of Assets; Growth in total assets e.g non-current assets; Increase in sales and revenue; Increase in the number of employees; Increase in number of branches; Higher percentage of women borrowers; Increase in the percentage of rural clients; Reduction on overall cost per loan; Improvement of Loan repayment and Reduced donor funding.

The study shows that, cost leadership strategies, differentiation strategy and focus strategy affect performance of microfinance institutions in Kenya. The analysis had significance value of 0.00 which indicates that these are important practices as far as performance of microfinance institutions in Kenya. Cost leadership strategies had the highest β value of .086; Differentiation strategy had a β value of .036 and had the least influence performance of microfinance institutions in Kenya, while Focus strategy affect had a β value of .067.

5.3 Conclusion

The study concludes that from the findings institution used continuous search for cost reduction without sacrificing quality and essential features of products/services and that institution enhanced process efficiencies; Leveraging on IT to deliver value e.g use of mobile banking and Offering products and services to a broader customer segment Volume sale/Maximising economies of scale as competitive strategies to remain competitive in the market. The study also concludes that institution use leveraging on IT to deliver value e.g use of mobile banking as competitive strategies to remain competitive in the market thereby improving performance of MFIs in Kenya.

Further the study concludes that institution used unique products/services for which customers are willing to pay more as a differentiation strategy to remain competitive in the market and that institution used Innovative products and process re-engineering and corporate image as differentiation strategies to remain competitive in the market.

Finally the study concludes that concentrating in one market; identifying a specific niche in the market and focus on products and services not offered by competitors are used as focus strategy to remain competitive in the market thereby improving performance of MFIs in Kenya.

5.4 Recommendations

The study recommends use of competitive strategies such as ccontinuous search for cost reduction without sacrificing quality and essential features of products/services and that institutions enhanced process efficiencies; Leveraging on IT to deliver value e.g use of mobile banking and Offering products and services to a broader customer segment Volume sale/Maximising economies of scale as competitive strategies to remain competitive in the market thereby improving performance of MFIs in Kenya.

The study also recommends that institution should use unique products/services for which customers are willing to pay more as a differentiation strategy to remain competitive in the market and that institution used Innovative products and process re-engineering and corporate image as differentiation strategies to remain competitive in the market thereby improving performance of MFIs in Kenya.

Finally the study recommends stakeholders to endeavor steer the business ahead of the market on technology to reap the benefits on cost savings, customer confidence due to accessibility of services, staff motivation. These can only be achieved by setting up an innovation and market research team to develop customer focused products and processes. The use of the Internet and mobile banking to effect transactions is also a key influential factor in development of a relationship between competitive strategies and performance of microfinance institutions and therefore should be greatly enhanced.

5.5 Limitation of the study

Out of the 61 respondents supplied with the questionnaire, only 45 managed to respond to the questions. The study was conducted through a pre-determined questionnaire, this hindered respondents from expressing their views freely. Also some respondents were sceptical about the intensions of the research. Some managers were unwilling to divulge information that they deemed secretive and led to no response from the respondents.

The respondents studied in this research were from one sector and conclusion drawn from this study may not be representation and therefore cannot be generalized to other industries.

5.6 Recommendation for further studies

The study focused on the the relationship between competitive strategies and performance of microfinance institutions who have operations in Kenya. More studies should be carried out on to establish the strategies employed to build competitive advantage and achieve superior performance in other sectors in the industry factors such as SACCO's and insurance companies.

Since the study was census survey that achieved a response rate of 74%, a case study would assist in bringing out the particular findings in each bank to avoid generalization. This will ensure that the data that was not captured is captured during the case study.

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APPENDICES

Appendix I: Letter of introduction to respondents

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
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DATE 23.09.2014

TO WHOM IT MAY CONCERN

The bearer of this letter JEREMIAH K. TOMNO

Registration No. D61/8998/2001

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
23 SEP 2014
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Questionnaire

This questionnaire seeks to collect information on the relationship between competitive strategies to the performance of Microfinance institutions in Kenya. All information received will be treated with confidentially and used for academic purposes only.

SECTION A: Background information

1. Name of the institution: ....
2. Year of Incorporation: ....
3. Ownership (*tick as appropriate*): Private [ ] Public [ ] Foreign [ ] Other (Specify): ....
4. What is the relative size of your MFI in terms of branches (*tick as appropriate*)

☐ 2 – 5 branches

☐ 6 – 10 branches

☐ Above 10 branches

....

5. What is the nature of your business? (*tick as appropriate*)

Retail Microfinance [ ]

Microfinance bank [ ]

Deposit Taking Microfinance [ ]

Other (Specify): ....

6. Your job position in the institution

Owner manager [ ]   Manager [ ] Supervisor [ ] Employee [ ] Any Other [ ]

SECTION B: Competitive strategies

Please indicate, by ticking appropriately, the extent to which your institution used the following strategies to remain competitive in the market. Use point scale where; **1- Not at all, 2- Little extent, 3- Moderate extent; 4- Great extent and 5- Very great extent.**

Cost leadership strategy	1	2	3	4	5
7. Fees charged lower than other Microfinance institutions					

8. Volume sale/Maximising economies of scale					
9. Continuous search for cost reduction without sacrificing quality and essential features of products/services					
10. Enhance process efficiencies					
11. Leveraging on IT to deliver value e.g use of mobile banking					
12. Offering products and services to a broader customer segment					
Differentiation strategy	1	2	3	4	5
13. Unique products/services for which customers are willing to pay more					
14. Innovative products and process re-engineering					
15. Service quality and Customer care					
16. Use of corporate image as a selling point					
Focus strategy	1	2	3	4	5
17. Focus on products and services not offered by competitors					
18. Custom made product and services to corporate customers					
19. Identified a specific niche in the market					
20. Concentrating in one market					

21. Does your organization have any other strategy used to reduce costs?
    Yes [ ]   No [ ]

If yes, indicate: ....

....

....

....

....

22. Does your organization have any other strategy used to reduce differentiate its products? Yes [ ] No [ ]

If yes, indicate: ....

....

....

....

....

23. Does your organization have any other strategy used to focus on particular customers? Yes [ ] No [ ]

If yes, indicate: ....

....

....

....

....

24. Provide any other strategy you consider important for the institution to enhance its competitive strategies.

....

....

....

....

....

SECTION C: Performance

How would you rate the institution performance on the following attributes over the past 5 years to that of other Microfinance institutions? Use point scale where; **1-Very Poor, 2- Poor, 3- Average; 4- Good and 5 - Very Good.**

Performance	1	2	3	4	5

25. Increase on Return on Equity					
26. Increase on Return of Assets					
27. Growth in total assets e.g non-current assets					
28. Increase in sales and revenue					
29. Increase in the number of employees					
30. Increase in number of branches					
31. Higher percentage of women borrowers					
32. Increase in the percentage of rural clients					
33. Reduction on overall cost per loan					
34. Improvement of Loan repayment					
35. Reduced donor funding					

SECTION D: Competitive strategies and Performance

Kindly indicate, by ticking appropriately, the extent to which strategies have led to improved performance in your business. Use point scale where; **1-Not at all, 2- Little extent, 3- Moderate extent; 4- Great extent and 5- Very great extent.**

Cost leadership strategy	1	2	3	4	5
36. Cost cutting measures (cost and Overhead control)					
37. Reduction of advertising and promotion cost					
38. Cost minimization in Research & Development (RD)					
39. Low cost relative to competitors					
Differentiation strategy	1	2	3	4	5
40. Anticipating customer needs and expectation					

41. Wide range of products					
42. Advertising and promotion					
43. New product development					
44. Branding					
45. Adoption of IT					
46. Branch network					
Focus strategy	1	2	3	4	5
47. High market share					
48. Market segment					
49. Concentrating in one market segment					
50. Customer products and services to meet market needs					

I sincerely appreciate the time you have spared to complete this questionnaire.

Thank you.

Appendix III: Members of Association of Microfinance Institutions (AMFI) in Kenya

K-rep Bank Ltd	K-Rep Centre, Wood Avenue P.O BOX 25363-00603 NAIROBI
Equity Bank	Equity Centre, Upperhill P.O BOX 75104-00200 NAIROBI
Co-operative Bank	Co-operative Bank of Kenya Ltd Co-operative Hse Building- 4th Floor P.O BOX 48231-00100, NAIROBI
Kenya Post Office Savings Bank	Market Lane Off 17 Banda Street, Postbank House P.O BOX 30311-00100 NAIROBI.
Kenya Women Finance Trust-DTM	Upperhill, Kiambere Road P.O BOX 4179-00506 NAIROBI.
Rafiki Deposit taking Microfinance Ltd	Elroy Plaza, Tom Mboya Street, P.O. Box 66049 00800 Nairobi
Faulu Kenya DTM	Ngong Road, Ngong lane P.O BOX 60240-00200 NAIROBI
SMEP DTM	Kirichwa Road, Kilimani P.O BOX 64063 NAIROBI
Remu DTM Ltd	Finance House, 14th Floor, Loita street P.O. Box 20833-00100 Nairobi
Uwezo DTM Ltd	Park Plaza, Ground Floor, Moktah Daddah Street P.O. Box 1654-00100 GPO Nairobi
Century DTM Ltd	New Pumwani Road K K Plaza, Gikomba
Sumac Credit DTM Ltd	Consolidated Bank Building, Koinange Street, 2nd Floor P.O. Box 11687-00100 Nairobi
Blue Limited	Chester House-Koinange Street P.O BOX 27749-00100 NAIROBI
K-rep Development Agency	K-Rep Development Agency Ltd K-Rep Centre| 7th Flr. Wood Av. Kilimani P.O. Box Box 10528 – 00100, Nairobi.
Eclof Kenya	Chiromo, Royal Offices, Mogotio Road P.O BOX 34889 NAIROBI **Email:** info@eclof-kenya.org
KADET	Capital Hill, Cathedral Road Community P.O BOX 1676-00200 NAIROBI
BIMAS	Bimas Complex P.O BOX 2299 EMBU
SISDO	Ngong Road, Ngong lane P.O BOX 76622-00508 NAIROBI
Micro Africa Ltd	P.O BOX 52926 NAIROBI
Opportunity Kenya	Geomaps Centre-Matumbata rd Upper Hill P.O BOX 19497-00202 Nairobi
Yehu Microfinance Trust	Buxton, Tom Mboya Street P.O BOX 82120 NAIROBI
Fusion Capital Ltd	ACK Garden house, Wing A, Ground Floor, 1st Ngong Avenue, Community next to ardhi house.
Canyon Rural Credit Ltd	Studio Hse,3rd floor P.O. box 46532-00100 Nairobi.

One Africa Capital Ltd	Koinange Street-Ratansi Educational Trust Building, 2nd Floor P.O. Box 74093-00200 oneafrica.microfin@yahoo.co.uk
Jitegemea Credit Scheme	Jogoo Road, KCB building P.O BOX 46514, NAIROBI jitegemea@wananchi.com
AAR Credit Services	Methodist Ministries Centre, 1st Floor Oloitokitok Road
Agakhan Foundation Microcredit Programme	Mpaka plaza, Westlands 3rd floor P.O BOX 13149-00100, NAIROBI
ADOK TIMO	Sifa House, Ground Floor, Mission Rd. Off Kakamega Rd. Opposite Kibuye Market. KISUMU.
Pamoja Women Development Programme	Kikinga House, Kiambu Town P.O. Box 2472 – 00100 Nairobi. E-mail: info@pawdep.org
Juhudi Kilimo Co.Ltd	Mucai Road, Ngong Road P.O. Box 10528-00100 Nairobi E-mail : nat@juhudikilimo.com
Musoni Kenya Ltd	Cape Office Park Along Ring Road Kilimani, Opposite Yaya Centre P.O. Box 25351-00100 Nairobi.
Molyn Credit Ltd	Bruce House 9th Floor Standard Street P.O. Box 10144-00100 Nairobi Email : info@molyn.co.ke
Renewable Energy Technology Assistance Programme(RETAP)	Waumini Hse, Westlands 1st Floor P.O. Box 28201-00200 Nairobi E-mail : info@retap-africa.org
Rupia Ltd	View Park Towers, 10th Floor P.O. Box 2987-00200 Nairobi Tel : 2251389 Email : info@rupialtd.com
Taifa Options Microfinance	Finance House, Kenyatta Highway P.O. Box 727, Ruiru E-mail : taifaoption@yahoo.com
U&I Microfinance Ltd	1st Floor, Asili Complex River Road/Latema Road Junction Opposite Kampala Coach E-mail: info@uni-microfinance.co.ke
Select Management Services Ltd	Kenya Re towers, off Ragati Road P.O. Box 27639,00506 Nairobi.
Greenland Fedha Ltd	KTDA, KTDA farmers building P.O. Box 30213-00100 Nairobi.
Youth Initiatives – Kenya (YIKE)	Kariobangi North, Sanoda Hse, 2nd Flr P.O. Box 50622-00200, City Square, Nairobi
Biashara Factors	Finance House, 11th Floor, Loita Street P.O. Box 66065-00800 Nairobi
Platinum Credit Limited	2nd floor, union towers, moi avenue P.O. Box 73304-00200 Nairobi info@platinumcredit.co.ke
Ngao Credit Ltd	2nd Floor NHIF Bldg. Community P.O. Box 60776-00200 Nairobi

	Email: info@ngaocredit.com
Indo Africa Finance	Museum Hill Centre 3rd Floor, Museum Hill Road P.O. Box 39435-00623 Nairobi – Kenya Email: info@indoafricafinance.co.ke
Springboard Capital	Kensia House along Muranga road, Opposite Kobil Petrol Station 1st Floor, suite no.12 P.O. Box 23720-00100, Nairobi.
Mini Savings & Loans Ltd	Highway Building, Githunguri Town (Near Githunguri Post Office) P.O. Box 874-00216, Githunguri, Kiambu Email: minisaving@yahoo.com
KEEF-Kenya Entrepreneurship Empowerment Foundation	Mapa House 3rd Floor Kiambu Road P.O. Box 648 Kiambu
Women Enterprise Solutions	Development House, Moi Avenue P.O. Box 4083-00200 Nairobi. info@wesokenya.com
Focus Capital Limited	Donholm Mina Centre P.O. Box 2406-00202 Nairobi. **Email:**aligeproperty@rocketmail.com
Samchi Credit Limited	Parklands Plaza P.O. Box 16982-00620 Nairobi. **Email:** martin.gikera@samchicredit.co.ke, info@samchicredit.co.ke
Fountain Credit Services Ltd	Ngong Road , near Kobil Petrol Station P.O. Box 72367-00200 Nairobi. **Email:** mgachau@fep-group.com, gkariuki@fep-group.com
Milango Financial Services	Rozina Building, Moi Avenue Street P.O. Box 99637-80107, Mombasa **Email:** info@milangokenya.co.ke
Nationwide Credit Kenya Ltd	Trishul Towers, 1st Floor Near Globe Roundabout Next to Paramount Plaza P.O. Box 41873-00100 Nairobi. **Email:** nationwidekenya@yahoo.com