STRATEGIES ADOPTED BY SMEP DEPOSIT TAKING MICROFINANCE LIMITED TO GAIN A SUSTAINABLE COMPETITIVE ADVANTAGE

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF THE SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

I, the undersigned, declare that this research project is my own work and has never been presented in any other university or college for a degree or any other award.

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

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DEDICATION

To my father and mother, for their strong belief in me,

To my lovely wife Jane, for her overwhelming support,

To my beautiful angels Rehema and Tabitha, my family's hope for academic excellence.

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ABSTRACT

Competitive advantage is the ultimate intention of strategic management; positioning a company ahead of its rivals through the formulation and implementation of effective strategies. There is therefore need for adopting strategies for a sustainable competitive advantage in an ever changing market environment. In the absence of such strategies, a company can lose its market share or face the possibility of extinction. This research is a study of SMEP Deposit Taking Microfinance Ltd (SMEP), which is one of twelve microfinance companies regulated by the Central Bank of Kenya. As one of the large institutions in the young microfinance industry, a study of the company would be an important contribution to the body of knowledge in the industry. The objective of this study is to determine the strategies adopted to give SMEP Deposit Taking Microfinance Ltd a sustainable competitive advantage. This research used the case study method employing both primary and secondary data. Primary data was gathered through in-depth interviews with the Chairman, Chief Executive Officer, and Senior Managers of SMEP Deposit Taking Microfinance Ltd. Secondary data was collected from SMEP's strategic plan, audited financial statements, operational reports, and various internet sites. Reports from the Central Bank of Kenya website were used to establish the client base and loans advanced to customers of SMEP's competitors. The data was collected for the five year strategic period from 2007 to 2011. Additional data for the years 2012, 2013, and 2014 was also collected to assess the effect of the strategies adopted after the strategic period. The findings show that SMEP's financial performance improved in the strategic period as a result of strategies that were effective to realize growth objectives. The market share however, remained unchanged within the strategic period but assumed a declining trend thereafter. This implies that SMEP's strategies have seen the company grow in size but not on competitiveness. In addition, the company only managed to defend its position within the industry in the strategic period, but the market share is threatened subsequently. In conclusion, SMEP needs to specifically target increasing the market share by employing those strategies that will defend the current market share and those that will effectively encroach on the markets of her competitors. The result of this study provides insights into the factors at play within the competitive microfinance industry and how those factors can inform strategic formulation and implementation to secure a sustainable competitive advantage. The study further bridges the competitive advantage theory and practice. The study recommends more research on competitive advantage in the financial sector. More studies on sustainable competitive advantage of microfinance banks would add to the body of knowledge of the fairly young regulated microfinance industry.

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LIST OF ACRONYMS

ATM	-	Automatic Teller Machine
CBK	-	Central Bank of Kenya
KCB	-	Kenya Commercial Bank
KWFT	-	Kenya Women Finance Trust
MESPT	-	Micro Enterprise Support Program Trust
MFIs	-	Microfinance Institutions
NCCK	-	National Council of Churches of Kenya
Sacco	-	Savings and Credit Cooperatives
SME	-	Small and Medium Enterprises
SMEP	-	Small and Micro Enterprises Program
USAID	-	United States Agency for International Development

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Competitive advantage is the ultimate intention of strategic management; positioning a company ahead of its rivals through the formulation and implementation of effective strategies. Competitive advantage is achieved when a company is able to create more economic value to its customers, relative to rival firms (Barney, 2007). Positioning a company ahead of rival firms calls for application of a broad spectrum of strategic management concepts including environmental analysis and the matching the company's capabilities and competencies to relevant environmental variables. Porter (1998) argues the need for competitive advantage by considering the nature of competition in any industry using the five forces model. Entry of new competitors, competitive rivalry and substitute products in the market can substantially reduce the market share of a firm. A strong bargain from customers could call for reduction in prices for products with a consequence of a fall in revenues. A strong bargain from suppliers could lead to an increase in costs or limited supplies of inputs and services. By gaining competitive advantage, a firm would be best placed to handle the competitive forces by not only being attractive to customers and suppliers, but also by reaching a market position where the firm outwits competing firms and substitute products by offering superior products or services.

What if a firm reached a successful market position and consequently achieves a competitive advantage, would it automatically mean that the firm will henceforth achieve success? Not necessarily. Markets are never static because there are often shifts in competition and customer tastes. These shifts call for a firm to repeatedly change its size and shape by adding or exiting products, activities, and people. For those people who see strategy as a game plan for a sporting activity, the business game complicates for lack of a championship that concludes a sporting season. For those who view strategy as a plan for war, the business war field differs because there is no final battle. A company is therefore always in a sport or a battle that is never ending with the respective opposing teams and enemies sharpening their tools for a sustained battle. In such an environment, a firm must pursue success by continuous adaptation to the environment through innovation in their resources and capabilities. After securing a successful position, a firm must vehemently defend it from rival firms to ensure sustained success. (Walker, 2004)

The research is a study of SMEP Deposit Taking Microfinance Ltd., one of the twelve institutions licensed by the Central Bank of Kenya. The microfinance industry is experiencing a host of issues and challenges among them, regulatory compliance requirements on ownership, capital adequacy and governance, new entrants in the market, introduction of microfinance services by commercial banks, and innovation in technology. A study of SMEP brings to light these aspects and discusses how a microfinance company can navigate the challenges faced by such a company in the market place.

1.1.1 The Concept of Strategy

A strategy can be described as a long term plan that is formulated by a firm and subsequently adopted through a wide range of actions with the overall aim of achieving the corporate objectives (Howe, 1993). Johnson and Scholes (1999) describe strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment by configuration of its resources and competencies, and with the aim of fulfilling the expectations of stakeholders. Strategies define actions that a firm must do within its business domain in ways that achieve an advantage for a firm, for example an effective position in the market in relation to the competitors. One of the key benefits of a good strategy is to enable a company match its activities and actions to the environmental opportunities and challenges. A company is then able to retain its relevance to the environment which is requisite to survival in the long-term.

Strategy could also be viewed as the management's action plan for conducting business in a manner that addresses three central questions. The first is the question of the company's present situation. This comprises of a company's performance and market standing, resource strengths and capabilities, and its competitive weaknesses. Secondly, there is the question of where the company wants to go. This guides the management of a firm to make choices on the long-term direction of a firm. Finally, the management has to satisfy the question of how to take the company to the desired future position. This is where strategy comes in. Strategy will be the answer to the how question which should comprise a range of plans and actions that should ensure a company moves in the intended direction, grows its business, and improves its financial and market performance (Thompson, Strickland & Gamble, 2007).

There are three widely acknowledged levels of strategy; the corporate level strategy, the business level strategy, and the functional level strategy. Corporate level strategies are crafted by the board of directors, the chief executive, and senior managers and comprise of how a firm will achieve great financial performance and also achieve other non financial goals. These strategies span over three to five year periods and define the business that a firm should be in. Business level strategies are the responsibility of leaders of strategic business units or divisions. These strategies define how a firm will compete within a selected market. The functional level strategies are short term in nature and are the responsibility of managers in charge of products, geographic areas, and functional areas. These strategies are meant to drive the implementation of corporate and business strategies by focusing on efficient and effective management of key support areas, namely; finance, production, marketing, customer service, and human resources (Pearce, Robinson, & Metal, 2007) .

Strategic formulation could be the most significant function of management, which is otherwise commonly referred to as planning. It is in planning that the management determines the courses of action to take to be competitive and also how to prioritize allocation of resources among competing alternatives. Mintzberg, Lampel, Quinn, and Ghoshai (2007) advance that strategy fits into a description of a plan because it is made in advance of the actions to which they apply, and they are developed consciously and purposefully. Because the business environment is dynamic, there are some actions that management is likely to take in response to changes in environment. This rather reactive strategy has been referred to as emergent strategy as opposed to the preconceived or planned strategy which is referred to as intended strategy.

1.1.2 Competitive Advantage

At the heart of every management strategic decision and action is the desire for a firm's success. For sustained success, a firm must possess some advantage relative to their competitors. This is what would otherwise be called the competitive advantage of the firm. Walker (2004) describes competitive advantage as the position that a firm assumes, in which it is able to offer value at a cost that produces economic performance that is superior to rivals. The result of having a competitive advantage is that of a firm enjoying more than average returns in the industry. (Pearce et al., 2007). To be able to craft strategies that will enable a firm to gain competitive advantage, a firm must have adequate knowledge about the target customers, the competitive market and their internal capabilities in meeting the demands of those clients and competitive forces.

Mintzberg at al. (2007) view firms' efforts to achieve competitive advantage through low cost strategy, differentiation strategy or a mix of both low cost and differentiation strategies, as traditional. Other than the generic competitive strategies, there are other strategies and actions by a firm that could result in competitive advantage. Innovation for example could be one sure way of going ahead of competition by riding on new technology for processing or delivering products. A firm could also adopt a strategy of speedy responses to customer demands and environmental threats. These strategies will ensure that a firm either takes the lead within competition or remains afloat where others close shop. (Johnson et al., 2008).

Barney and Hesterly (2003) explain that for sustainable competitive advantage to be achieved, environmental analysis and the resultant matching of competencies must be done proactively and reactively as applicable and on a continuing basis. Failure to consistently match the competencies of a firm with the environmental changes will results in a converse scenario of competitive disadvantage, where a company is overtaken by rivals within the market so that its market share shrinks significantly. This could threaten a company's survival to a point of extinction. Walker (2004) further explains that consistency in delivering superior value depends on a firm's resources and capabilities. Resources are observable assets such as brand or geographical location with a value in the market and can be traded. Capability means a firm's ability to use organization and people to carry out tasks with high level of expertise over time. For a sustainable competitive advantage, a firm must be able to defend its resources and capabilities from being eroded by industry forces. Competitive advantage is threatened when rival firms copy assets and practices or induce customers to switch to comparable or substitute products.

1.1.3 SMEP Deposit Taking Microfinance Ltd

SMEP Deposit Taking Microfinance Limited (SMEP) is one of the MFIs that are regulated by the Central Bank of Kenya (CBK). There are currently six regulated deposit taking microfinance institutions (MFIs), namely; Faulu Kenya, Kenya Women Finance Trust (KWFT), REMU, SMEP, Uwezo and Rafiki (Central Bank of Kenya, 2011). Regulation of the microfinance industry started with the introduction of the Microfinance Act of 2006 and publishing of the Microfinance Regulations of 2008. These regulations empowered the CBK to license MFIs that met the qualifying criteria to carry out deposit mobilization business. Prior to these regulations, all microfinance institutions in Kenya only carried our credit business.

The Government of Kenya identified MFIs as key partners in the alleviation of poverty in its blue print, Vision 2030 (Government of Kenya, 2007). Consequently, the government introduced microfinance regulations to ensure proper governance structures are in place in these MFIs and also secure public confidence in the mobilization of deposits. The government has been keen on enhancing financial access to the poor and marginalized but who are otherwise bankable. It has been estimated that 32% of bankable Kenyans are excluded from the financial sector. Through the CBK as the regulator, and designated funds such as Women Enterprise Fund and Youth

Enterprise Fund, the government has partnered with MFIs to expand financial inclusion of the public. Among these MFIs that the government is in partnership with is SMEP.

SMEP started in the year 1975 as a project under the National Council of Churches of Kenya (NCCK) with the sole purpose of feeding children of prostitutes in the Mathare Valley slums of Nairobi. The project was initiated as part of NCCK's evangelical efforts that targeted women who would engage in prostitution to feed their children. Feeding the children through food aid was in the long term not sustainable since donor funds were not reliable, and the targeted women continued in prostitution because they lacked other means of occupying their time. In 1985, the project was turned into a credit scheme which was later converted into a microfinance company limited by guarantee in 1999. By that time, SMEP had five thousand borrowers and five branches in the country. SMEP grew from then on to boast of a clientele base of 90,000 and 40 branches countrywide by December 2010 when CBK granted them a DTM license. At the time of licensing, SMEP had converted from a more social outfit of a company limited by guarantee to the current commercial company limited by shares. As of 31st December 2014, SMEP had 17 banking branches, 30 marketing offices, 305 employees, 218,021 customers, outstanding loan portfolio of Ksh 1,860,441,038 and savings portfolio of Ksh 1,325,260,000 (SMEP, 2014).

1.2 Research Problem

Competitive advantage is the primary aim of business level strategies where managers are preoccupied with how to compete successfully in the business environment. When investors identify and commit to a strategy that makes a firm earn more than average return, then competitive advantage gives the firm an economic reason to exist. In a competitive market however, every other firm is also pursuing a competitive edge. In the long term, what was once the means of competitive advantage for one firm becomes requisite for every firm's survival in the industry. In such a case, a firm has to figure out a new way to gain a competitive edge (O'Brien et al., 2009). Once a competitive strategy has been realized, it should be sustained. Johnson et al. (2008) examine the possibility of achieving a competitive advantage in such a way that it can be preserved over time. If competitive advantage is a primary goal of a firm, then its sustainability must be its life. Without a sustainable competitive advantage, a firm will decline in performance, or become extinct. Creating a sustainable competitive advantage is therefore the most important single attribute where most focus of a firm should be placed.

Microfinance institutions began as donor supported Non Governmental Organizations (NGOs) with the sole social mission of poverty alleviation. Over time, donor organizations shifted their priorities from funding MFIs necessitating those MFIs to expand their objectives to incorporate financial sustainability. Ledgerwood & White (2006) discuss how MFIs had to source for funds from commercial lenders and equity investors who have also doubled as competitors by targeting the bottom end of the economic pyramid. SMEP gets funding for loans to her customers from Cooperative Bank, Kenya Commercial Bank, Standard Chartered Bank, Jitegemee Trust, MESPT, Oiko Credit and the Government of Kenya's Women and Youth Enterprise Funds. After December 2010, SMEP ventured into deposit mobilization and still continued loan disbursements to her customers. SMEP faces competition from commercial banks, some of which are its own lenders. Other competitors for SMEP comprises of other MFIs, and Savings and Credit cooperatives (Saccos). This study was on how SMEP positions herself strategically in order to be ahead of all these competitors.

A few studies have been undertaken locally on strategies for achieving competitive advantage. Mbewa (2010) studied the strategies employed by Barclays Bank of Kenya to achieve competitive advantage. He found out that the bank achieves competitive advantage by employing differentiation strategy on its product offering. Ogori (2010) examined strategies employed by commercial banks in Kenya to build competitive advantage. She found out that banks adopted both low cost and differentiation strategies. Kimani (2009) studied on the strategies adopted by Postal Corporation of Kenya to gain competitive advantage in the mail subsector. He observed that the corporation employed both low cost and differentiation. Kimani (2008) carried out a study on the role of ISO 9001 certification in developing competitive advantage for Kenyan organizations. He concluded that ISO certification is a definite source of competitive advantage because it accrues the benefits of improved product and improved customer perception. These studies focused on competitive strategies of relatively large firms in established industries. They also concentrated on the low cost and differentiation strategies. There are few studies on competitive advantage in the financial sector, and no study has yet been done specifically on strategies for sustainable competitive advantage in the microfinance industry. This means that a study of a specific MFI regulated by the CBK will be a new but otherwise interesting study. The research question is; what are the strategies adopted by SMEP to give the company a competitive advantage?

1.3 Research Objective

The research objective was to determine the strategies adopted to give SMEP a sustainable competitive advantage.

1.4 Value of the Study

The results of the study will be for the benefit of leaders and managers of microfinance institutions by providing insights into the factors at play within the competitive microfinance industry. The study will offer insights into how these factors can be addressed through strategic management to secure competitive advantage.

For the Management of SMEP, this study will bridge the competitive advantage theory and practice, with helpful insights into successes that the company should uphold and pitfalls that should be addressed. With specific references to the strategic practices of the company, the study will help the company mirror their current competitive positioning against their intended position by presenting SMEP's practice in the context of the microfinance industry.

For academicians and other researchers, the study will add to the body of knowledge in the relatively young microfinance industry with a specific interest in the new regulated deposit taking microfinance industry where one organization is studied the context of research. In so doing, the study will open up more areas for possible future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This study aims at informing how strategies can be adopted to enable a firm achieve and sustain a competitive advantage. This chapter reviews strategy as defined by various management scholars locally and elsewhere in the world. The chapter also reviews scholarly material on the strategic process and how such a process brings about competitive advantage for a firm.

2.2 Theoretical Foundation of the Study

Different strategy concepts for competitiveness have been argued by various authors including definition of strategy, formulation of strategy, perspectives of strategy, and characteristics of strategies.

Porter (1998) views strategy as what a firm plans and does to cope with competition. He further sees strategy as those plans and actions which position a firm to either carry out different activities from rival firms, or to perform similar activities in different ways. There is also a discussion on confusing of strategy for operational effectiveness. Some significant corporate adjustments such as outsourcing, partnering, reengineering, and change management, among others, are seen as activities that bring about greater efficiency with a consequence of lowering unit costs. Strategy is what creates a sufficiently greater value to allow a firm charge higher prices for products or services relative to competitors.

Johnson et al. (2008) have described four strategic lenses as different perspectives of viewing strategy. As a design, strategy is a logical process where analytical procedures are used to evaluate a firm's position and define its direction. As an experience, strategy is a path defined by management learning and ways of doing things which are embedded in the culture of the organization. In this view, there is a tendency to repeat what a firm has always done before. As ideas, strategy is a new way of responding to uncertainties and changes in the environment. Finally, strategy is a discourse, a language of communicating business problems, proposed solutions and strategic decisions.

Strategy emanates from the process of strategic planning which begins with managing a company's investment portfolio and consequently assessing the strengths and weaknesses of the business by considering the market's growth rate and company's position and how these fit in the market. After such an assessment, a firm then establishes a strategy for each business to achieve its long term objectives. (Kotler, 2003). Johnson et al. (2008) describe these deliberately formulated strategies as intended strategies. Such strategies heavily depend on a strong strategic leader for success. There is a likelihood of a firm adopting other strategies other that those initially planned, but which influence the long term direction of the firm. These emergent strategies could be as a result of external imposition, for example by powerful stakeholders, or a response to unforeseen environmental changes.

Barney (2007) sets out four characteristics of a good strategy. He argues that a good strategy must support the mission of the firm, be consistent with the firm's objectives, employ the firm's resources to tap opportunities in the market, and neutralize the threats in the firm's environment. A good strategy will also require proper implementation for it to bear the intended results.

Barney continues to lay ground for successful implementation of strategy, which he believes depends on an appropriate organizational structure, a mix of formal and informal management control systems, and employee compensation programs.

2.3 Strategies for Sustainable Competitive Advantage

This subsection presents strategies that firms adopt to achieve competitive advantage. They can otherwise be called competitive strategies. The generic strategies proposed by Michael Porter are first discussed, followed by product-market growth strategies advanced by Igor Ansoff, and thereafter other strategies that have been adopted by various firms to achieve a sustainable competitive advantage.

2.3.1 Generic Competitive Strategies

Porter (1980) proposed three business level strategies for achieving competitive advantage; low cost, differentiation and focus. Low cost strategy is pursued by firms which offer the same product value to customers as their competitors but as lower costs. This strategy may achieve more than average returns because a firm can lower its prices and rake in voluminous sales. Differentiation strategy requires a firm to provide unique value to customers compared to competitors. This value enables such a firm to charge a premium on their products and consequently achieve a competitive advantage. The focus strategy is pursued when a firm serves a specialized segment in terms of a limited geographic market, a specific kind of customer or a narrow range of products (Salavou & Halikias, 2008). Competitive advantage is reached when a firm is able to reach a specified segment more effectively than rival firms. Focus strategy however involves achieving either of low cost or differentiation strategy or both.

According to Hellriegel, Jackson and Slocum (2005), cost leadership and differentiation are generic strategies because all types of organizations can use them. The cost leadership strategy needs four requirements to be successful. These comprise of utilization of facilities or equipment that yield high economies of scale, reducing per unit total cost of products, minimizing labor and sales costs, and avoiding customers who demand high personal selling or service costs. For a successful differentiation strategy, the requirements are strong marketing, effective integration of functions, creative employees, continuous product development, and reputation for quality. Hellriegel et al. (2005) present four generic strategies in Figure 2 below.

Figure 2. Generic Competitive Strategies

Strategic Target			
	Broad	Differentiation Strategy	Cost Leadership Strategy
	Narrow	Focused Differentiation Strategy	Focused Cost Leadership Strategy
		Uniqueness	Low Cost (Price)

Sources of Advantage

Adopted from “Management: A competency Approach,” by D. Hellriegel, S. Jackson & J. Slocum, 2005, p. 199. Copyright by Thompson, South Western.

According to Thompson et al. (2007), there are five generic strategies. In addition to the above four, they have proposed the best-cost provider strategy. This strategy is employed when a firm gives more value for their money by incorporating superior product attributes at lower costs than rivals. More of these attributes could take the form of appealing features, greater product performance, better quality, or attractive customer service. Thompson et al. (2007) argue that this strategy differs from low cost strategy because additional product features involve additional costs. They further explain that the best-cost provider strategy is a hybrid which balances a strategic emphasis on differentiation.

Walker (2004) argues that the generic strategies will either lead to a firm positioning itself as a differentiator or a cost leader, regardless of whether the firm to adopts a narrow or broad focus. If a firm is unable to be a differentiator or a cost leader, then it will be "stuck in the middle", and will not achieve competitive advantage unless it acquires some resources and capabilities which will make it achieve high value of low cost. A firm stuck in the middle could also seek competitive advantage by expanding its customer base to allow it improve on its abilities.

2.3.2 Product/Market Growth Strategies

In any of the cases where a company pursues a cost leadership, differentiation or focus strategy, the product and service policy must ensure that market offerings are matched with the relevant chosen markets. A competitive strategy is therefore a well researched, planned and resourced activity (Adcock, Halborg & Ross, 2001). The Ansoff matrix in Figure 3 below summarizes four growth options by a firm.

Figure 3: Ansoff's Product/Market Growth Matrix

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

Adapted from "Exploring Corporate Strategy: Texts and Cases," by G. Johnson, K. Scholes and R. Whittington, 2008, p. 258. Copyright 2008 by Prentice Hall

A firm advances the market penetration strategy to expand the market share in the excising market using the existing product offerings. A firm seeks to gain a competitive edge by capitalizing on economies of scale and experience. According to Johnson et al. (2008), this strategy protects or builds on current position, and has a component they call consolidation, which aims at strengthening a company's current position with existing products through reshaping or innovation to improve the value of products or services; and another component they call market penetration, where an organization gains market share by increasing marketing activities. Pearce et al. (2007) argue that penetration is achieved when a company employs a dominant technology and they go further to discuss four conditions for success of this strategy. The first condition is when the industry is resistant to major technological advancements. A firm that seeks an advantage invests in a more superior technology. The second condition is when targeted markets are not saturated with products. A third condition is when product markets are distinctive enough to dissuade competitors from invading the firm's segment. The last condition stability in price, quantity and supply of a firm's inputs so that a firm always has inputs at the times needed.

Johnson et al. (2008) see product development strategy as comprising delivery of modified or new products to existing markets. This is either triggered by changing needs of customers or end of existing products' life cycle. Ledgerwood and White (2006) argue that competition in the marketplace and evolving needs of customers require a market driven approach to product design and development. To achieve a competitive edge, the products designed must satisfy the needs and expectations of customers. Development of new products is often an expensive, risky and potentially unprofitable venture. To manage the risk of failure, commitment to high levels of spending in research and development is requisite. Furthermore, a firm could gain core competencies in market analysis and design competitive products through powerful information technology (Johnson et al., 2008).

Market development strategy is said to be the second least risky of grand strategies (Pearce et al., 2007). A company employing this strategy markets existing products to customers in other market segments by adding channels of distribution or expanding the scope of advertising or promotion. Market development is feasible as a competitive strategy where existing products can be exploited in new market segments or where new uses for exiting products are developed. The firm employing this strategy has to manage the challenge of expectations in the new markets or segments they enter (Johnson et al., 2008).

The diversification strategy is employed by a company when it enters new markets with new products (Johnson et al., 2007). This is a high risk strategy which is often necessitated by a firm’s efforts to survive, grow sales or market share, spread risks, prompt competition or enter new market segments. Pearson et al. (2007) have discussed two kinds of diversification. The first is concentric diversification which involves acquisition of businesses that are related to the acquiring firm in technology, markets or products. The second kind is the conglomerate diversification, where a firm acquires a business which is financially attractive, even though there may not be any product-market synergies as is in the case of concentric diversification. Pearson et al. (2007) further highlights some challenges that firms face implementing the diversification strategy and include having inappropriate structure, management remuneration, and targeting the wrong business to acquire.

2.3.3 Strategic Alliances and Partnerships

Thompson et al. (2007) see strategic alliance as a formal agreement between two or more separate companies in which there is strategically relevant collaboration, , joint contributions of resources, shared risk, shared control, and mutual dependence. Jointly, such companies are involved in marketing, sales, distribution, research, and development of new technologies or products. Firms today are faced with expanding global competition, growing costs of research, product development and marketing, and competing firms forging alliances with suppliers and customers (Ball & McCulloch, 1996). In forging alliances, firms aim to achieve faster entry into markets, gain access to new technologies or products, and share resources, costs or risks which would be more valuable in a joint effort than when kept separate.

Barney (2007) discusses three types of strategic alliances, the first being the non-equity alliance in which firms involved contractually work together without buying equity in each other or form a separate organization to manage their cooperative efforts in the form of joint venture. The second type is the licensing agreement in which one firm allows the other to sell or distribute its products. Finally, there is the equity alliance in which one firm buys a part of another's equity to supplement cooperative contracts. Johnson et al. (2008) has more types of alliances which include licensing and joint venture types as presented by Barney. In addition, there are Consortia where firms collaborate for a specific venture or project; networks, which are less formal arrangements of collaboration and depend entirely on mutual adaptation of working relationship and trust; franchising, where a franchisee carries out specific activities such as manufacturing and distribution whilst the brand and marketing management is done by the franchiser; and subcontracting, where a company chooses to subcontract specific services or part of a product process.

In their discussion on strategic alliances, Thompson et al. (2007) have outlined the factors that determine accruing benefits. A firm must pick out an appropriate strategic partner, be sensitive to cultural differences in new territories, ensure alliance is mutually beneficial, partnering firms must live up to their commitments, appropriate structure that can enable timely decision making, and managing the learning process and adjusting the alliance agreement over time to fit new circumstances. Thompson et al. (2007) have gone ahead to warn that only fifty percent of strategic alliances have chances of success. High failure rate of this strategy arises from diverging views and priorities which make partnering firms unable to work together, changing conditions of the agreements which result in making alliances obsolete, emergence of more attractive technological options and marketplace rivalries between one or more allies within the alliance.

2.3.4 Vertical Integration

This strategy is defined as Pearce et al. (2010) as acquisition of firms which supply the acquiring firm with inputs. Barney (2007) views vertical integration as a firm's decision to engage a set of discrete activities within the value chain which are responsible for designing, building, selling or distributing a product or service. The number of stages in the value chain determines the level of vertical integration. Barney (2007) distinguishes between forward vertical integration, where a firm is involved in value adding activities which are closer to the ultimate consumer, and backward vertical integration, where a firm engages in value chain activities that are further away from the ultimate consumer.

According to Pearce et al. (2010), the reason for backward integration is the desire to increase the dependability of the supply quality of raw materials used as production inputs. This strategy is most applicable in a business environment where suppliers of inputs are few and competing firms are many. A firm employing backward integration will have better control of costs and consequently improve profit margins. Forward integration is adopted to increase predictability of demand for a firm's output. Although these are promising corporate strategies, horizontal integration faces the risk of commitment to one type of business while as forward integration faces the challenge of expansion into areas requiring strategic managers to broaden their base of their competencies and to assume additional responsibilities.

Thompson et al. (2007) argues that vertical integration strategy is appealing only of it significantly strengthens the firm's competitive position. To achieve greater competitiveness from backward integration, a company must be able to achieve the same scale economies as outside suppliers and also match production efficiency without dropping the quality. To enhance competitiveness through forward integration, a company must produce a relative cost advantage in its distribution, which will eventually result to lower selling prices to end users.

2.4 Strategies for Sustaining Competitive Advantage

Once a firm adopts a competitive strategy, it will then need several strategic initiatives for defending the competitive position realized. Porter (1998) argues that a company will outperform its competitors if it can preserve the difference it establishes. The nature and timing of the actions employed may defer, and could take various forms including offensive or defensive marketing strategies.

Wikipedia (2009) proposes four fundamental principles for launching an offensive marketing strategy. The first is assessment of the target competitor's strength and secondly finding a weakness in the target's position which will form the focus of an attack. The third principle is attacking on a narrow front and finally, launching the attack quickly to effectively surprise the target competitor. Specific offensive strategies could be frontal attack, a fairly expensive strategy which could involve intensive advertising and development of a new product able to attack those of competitor's; envelopment strategy, comprising of expanding to market niches that encroach on the competitor's target or introducing a wide range of products that steal into the competitor's market share; leapfrog strategy, where a firm bypasses competitors by adopting new technologies or business models; and flanking strategy, where a firm attacks a competitor in a way that triggers chaos within the competitor's internal environment.

Thompson et al. (2007) have outlined more offensive strategies for sustaining competitive advantage. One of these is the pursuit of continuous product innovation to draw sales and market share away from less innovative rivals. A firm could also choose to adopt and improve on the good ideas of rival firms. These strategies can trump the products of competitors, especially when their new product development capabilities are weak. They go on to discuss guerilla warfare tactics which aim at grabbing sales and market share from complacent or distracted rivals. This is achieved by occasional low-balling on price. Finally, blue ocean strategy can be employed where a firm invents a new industry or a distinctive market segment market with a consequence of rendering the existing competitors irrelevant.

Hauser (1990) argues that a company can defend its competitive position with price. Hauser proposes Defensive Price I, where a firm lowers prices if the market is not highly segmented; Defensive Price II, where a firm raises the price if the market is highly segmented; Defensive Price III, where a firm sets a price that earns less profits after a new entrant than there before. Other than price strategies, a firm could also employ repositioning strategies of advertising, product redesign, or offering distribution incentives to parties in the distribution chain such as wholesalers and retailers.

O'brien et al. (2009) have discussed how firm's can sustain competitive advantage using Information Technology (IT). One of the strategies is locking in customers and suppliers by building valuable relationships through IT in all activities relating to distribution, marketing and sales. Another strategy is creating switching costs for customers and suppliers by investing in an integrated IT infrastructure which would otherwise make customers and suppliers reluctant to pay the costs of money, time, convenience and effort to switch to competitors. Lastly, O'brien *et al* propose raising barriers to entry

Mintzberg et al. (2003) propose the four competitive maneuvering strategies for sustaining an advantage. The first strategy is the cooperation with competitors, where there is an agreement between competing firms for coexistence. Competition is checked by mutual restraint such that it is reduced on the part of each competing firms. The second strategy is the “cold war” tactics which applies to firms which are partly competitors and partly cooperators. A firm persuades a competitor to a compromise position until there is no more advantage left in the cooperation. A third strategy is enforcing cooperation by exhibiting obvious willingness to use overwhelming force. This causes competitors to be rather restrained in their rivalry or act in a fashion which their management deems advantageous. Finally, there is the nonlogical strategy where a firm employs unreasonable and arbitrary demands while negotiating with competitors while trying to negotiate for a stable competitive environment. Mintzberg et al. (2003) add that a firm is also able to sustain a competitive advantage by making large-scale commitments to appropriate input factors. These commitments make resources scarcely available to competitors and also secure control over appropriability of their value. A firm can also sustain its competitive advantage by developing unique capabilities which are hard to imitate since they are ingrained in learning and other detailed and complex organizational processes.

2.5 Conceptual Framework

Pearce et al. (2007) have proposed a comprehensive framework for strategic management. The process begins with formulation of a company’s mission, analysis of the company’s internal capabilities and conditions, assessment of the company’s external environment which includes competitive factors, analyzing the company’s options in matching resources to external factors, and identifying the most desirable options in line with the company’s mission.

The Company has to lay out a set of long-term objectives and grand strategies that will achieve the most desirable options and also develop annual objectives and short term strategies that will be adopted to achieve the objectives. A critical part in the strategic management process is the implementation of strategic choices through allocation of budget resources by matching of tasks, people, structures, technologies, and rewards systems. A consistent aspect of strategic management is evaluation of the success of the process through constant feedback. Such evaluation forms a critical input for future decision making.

2.6 Summary of Literature Review

A study by Porter (1980) on achieving competitive advantage by employing three business level strategies has been critiqued as too general therefore generic by Hellriegel et al. (2005) because they are applicable to all types of organizations. Generic strategies are nevertheless crucial in today's business environment because they will either position a firm as a differentiator or a cost leader (Walker, 2004). Adcock et al. (2001) examined the research work, planning and resourcing activities required to develop a competitive strategy. Johnson et al. (2008), Pearce et al. (2007), Thompson et al. (2007), and Barney (2007) have discussed various strategies that organizations can employ to achieve a competitive advantage. Hauser (1990), Porter (1998), O'brien et al. (2009), and Mintberg et al. (2003) have argued the strategies adopted by companies to sustain their competitive advantage.

It can be concluded from the empirical evidence that previous studies did not cover sustainable competitive advantage specific to financial institutions neither did they address the microfinance industry in Kenya. Most of the studies focused on corporations in developed nations long before microfinance industry in Kenya was regulated. It is evident that for sustainability and survival, organizations deliberately adopt strategies to achieve and sustain a competitive advantage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, data collection and data analysis used to achieve the objective of the study which was to determine the strategies adopted by SMEP Deposit Taking Microfinance Ltd to achieve a competitive advantage.

3.2 Research Design

The research was through the case study method. This method intended to enable the researcher examine, in detail, the strategies formulated and implemented by SMEP to achieve a superior competitive position. Nyororo (2006) argued that a case study is the most appropriate design where intensive study is desirable.

3.3 Data Collection

The study used both primary and secondary data. The primary data was collected using an interview guide (Appendix II). The guide comprised of the background information of the interviewees, questions on competitive strategies, and questions on strategic initiatives for sustaining competitive advantage. The guide was applied to conduct in-depth interviews with the Chairman, the Chief Executive Officer, and Senior Managers of SMEP.

Secondary data was collected from various sources including the company's strategic plans, financial statements, and operational reports. Information on the competitive position of the company was collected from various internet sites.

3.4 Data Analysis

Data collected was analyzed using content analysis techniques. Mbugua (2010) used this technique to evaluate the usefulness, consistency, credibility and adequacy of the information collected. Nyororo (2006) argued that qualitative methods of data analysis can be useful in uncovering what lies behind the phenomena under study, or even extend to gain fresh material.

3.5 Summary

The case study design was effective in the detailed examination of the strategies adopted by SMEP to achieve a sustainable competitive advantage. The data collection methods used comprising of interviews and review of company and industry information provided adequate information to the researcher for the study of SMEP. The use of content analysis in evaluation of data was critical in testing the consistency and credibility if information given by the interviewees. The research methodology therefore was effective in meeting the objectives of the study.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings compiled from interviews conducted with interviewees and discussions on how the strategies adopted have impacted on the performance of SMEP. There are two main sections in the chapter; the interviewees' profile and strategies adopted by SMEP to gain a sustainable competitive advantage. The latter section has subsections that comprise of strategy formulation at SMEP, product/market based strategies, technology based strategies, distribution based strategies, partnership based strategies, and impacts of strategy on the performance of SMEP.

4.2 Interviewees' Profile

This part of the interview guide was aimed at ascertaining the attributes of the six interviewees and consequently their suitability in providing credible information about the company. The six interviewees comprised of the Chairman of the Board, the Chief Executive Officer, the Head of Finance, the Head of Operations, the Head of ICT, and the Head of Human Resources. Their work experience in SMEP ranged between five and fifteen years. The interviewees had participated in formulating strategic plans for SMEP between two and five times. The interviewees can therefore be considered to possess institutional knowledge and experience in strategic formulation and implementation at SMEP to explain satisfactorily the strategies SMEP adopted to gain a sustainable competitive advantage.

4.3 Strategies Adopted by SMEP to gain a Sustainable Competitive Advantage

The objectives of the study were to establish the strategies adopted by SMEP to gain a sustainable competitive advantage, and to determine the adequacy of those strategies by assessing their impact on the company's performance. Qualitative analysis of data was used to determine the actual strategies adopted and their impact on the performance of SMEP.

4.3.1 Strategy Formulation at SMEP

All the interviewees confirmed that strategic planning and implementation in SMEP was aimed at ensuring the company becomes the industry leader in terms of market share. SMEP defines a five year strategic term and documents a strategic plan for each of these terms. The formulation of the strategic plan comprises of clarifying the vision and mission, setting objectives, establishing strategies for achieving those objectives, determining the timing of activities required to implement the strategies, and establishing the resources needed. The strategic planning exercise is carried out by the board and senior management with the aid of a strategy consultant. The senior management is assigned the responsibility of strategy implementation. The strategies adopted to grow the market share are defined along products, markets, technologies, and branch network.

4.3.2 Product/Market Based Strategies

According to the interviewees, SMEP operates the microfinance business using the group guarantee lending model. In this model, small business operators are clustered into customer groups comprising of ten to thirty persons. These customer groups are trained in group dynamics, financial management, and record keeping. SMEP offers the customers savings and credit products to meet their business and household needs. Each group member is advanced loans based on their repayment capacity and the other group members serve as guarantors for the amount borrowed. This business model is comparable to those of competitors within the microfinance industry. Considering that the group business accounts for 70% of SMEP's business, defending the market share in the industry is a key priority in SMEP's strategic framework. Unlike many microfinance institutions whose focus is financial empowerment for the women, SMEP differentiates its services by offering group loan products that target both men and women. The internal processes of loan processing within the company ensure that funds are credited to the applicants' accounts within two days after application for a loan has been received. Competitors have a turnaround time of fourteen to thirty days. An all-gender inclusive financial offer and a fast turnaround time in loan disbursements has seen the customer base grow by 313% and loan book by 150% in five years.

The interviewees agree that SMEP has diversified the products on offer to reach a wider population than the traditional small business owners. Firstly, the company has developed financial products for churches and church managed institutions. The products were developed after NCCK affiliated churches expressed their frustration to SMEP of being excluded from project financing by the commercial banks which they have banked with for decades. SMEP introduced loan products for the construction of church sanctuaries and halls, equipping of schools and medical facilities, purchase of school buses, and purchase of land. Church business contributes to 10% of SMEP's loan book after two years of introduction. No delinquent loans are reported for loans advanced to churches and church institutions. The close affiliation to NCCK gives SMEP free access to national, regional and local church events and services for marketing. This access is not replicable by any other financial institution. Secondly, SMEP has developed and introduced deposit and loan products for SME owners. The products were introduced to meet the demand of business owners whose enterprises grew from the micro stages and required comprehensive banking services which microfinance institutions could not offer within the group based model. The SME portfolio has grown to 10% of the overall SMEP's business. The strategy to enter SME market was to defend the customer base that would otherwise have switched to commercial banks. Finally, SMEP introduced loan products for salaried employees. This strategy was not aimed at achieving any advantage over competitors, but to achieve the minimum expectations the market has for financial institutions. The salary loans now comprise 5% of the company's business portfolio.

In addition to differentiation and diversification strategies, the interviewees explained that SMEP has adopted a strategy of attacking competition through periodic intensive advertising for deposits products. The most prominent campaign is dubbed *dabo dabo* which offers customers a chance of earning a double rate of interest on fixed deposits earnings. The campaign projected SMEP as a competitive financial institution resulting in an increase in deposits by 300% in six months. The campaign triggered chaotic reaction by competition ranging from complaints to the Central Bank to imitation dubbed *dabolisha* by one of the leading commercial banks.

The interviewees believe that the most radical strategy SMEP company has adopted to strengthen the market position is divestiture. In this strategy, the company changed its legal form from a private limited company to a public limited company. The company then raised equity capital through new shareholders and invested the equity fund in working capital. Consequently, the company was able to raise the statutory lending limit to a single borrower from five million shillings to thirty five million shillings. Increased capacity to lend higher amounts has enabled SMEP to successfully enter the SME market, and create a new market of lending to churches.

4.3.3 Technology Based Strategies

According to the interviewees, SMEP has positioned herself for competitiveness by running on Temenos T24 as the core banking software. The software has multiple functionalities which include capacity to integrate mobile banking, agency banking, and ATM services. According to the interviewees, the core banking system in use by SMEP is also in use by large commercial banks such as KCB, CFC Stanbic and the Central Bank of Kenya. The cost of installing this system is way beyond the affordability of most microfinance institutions, with only one competitor having successfully implemented the system.

The interviewees are of the view that SMEP has taken advantage of the core banking system's capacity to be the earliest adopters in the industry of mobile banking services by integrating MPESA services offered by Safaricom into the access channels available to customers. SMEP has also copied the agency models adopted by Cooperative Bank and Equity Bank and introduces SMEP Agents in key towns. SMEP has made the agency platform better for agents by designing an Android based application which runs on mobile phones instead of the POS version used by the commercial banks' agents. To outwit the microfinance institutions, SMEP has equipped each field officer with a mobile phone loaded with the agency application. This enables the officers to register customers, receipt transactions, and apply for loans on a real-time basis.

Technological advancement by SMEP has made their principal banker, Cooperative Bank, to sign up a collaboration agreement for SMEP's customers to use the ATM network of Cooperative Bank instead of investing in ATM infrastructure. SMEP was therefore able to introduce VISA enabled debit cards which have not been replicated by any other microfinance institution in Kenya. Cooperative Bank also entered into an agreement with SMEP for international money transfer services of Money Gram and Western Union to be offered through SMEP branches.

4.3.4 Distribution Based Strategies

The interviewees recount that after obtaining a license from the CBK to mobilize deposits, SMEP embarked on a plan of converting all the marketing offices into banking branches. This is in line with the corporate philosophy of maintaining high physical contact with customers even with increased technological channels of service delivery. At the time of licensing, SMEP had six banking branches. The company has since increased the number of branches to fifteen.

SMEP differentiates its delivery channels most significantly by having field officers. All the interviewees agree that this is the channel that distinguishes microfinance banking from commercial banking. Every customer of SMEP has a business development officer assigned to them for purposes of financial advice and processing of financial requests. For microfinance customers, officers use public transport at the company's cost or motorbikes provided by the company to meet customers at designated locations. Managers on the other hand are allowed a mileage allowance to meet SME type of customers. Competitors pay for field expenses through payroll, with a consequence of taxes. Eventually, such competitors experience less benefits of officer outreach and depend more on referrals and walk-ins for new customers.

The interviewees believe that the latest service distribution mechanism adopted by SMEP, the third party agency, will be the most effective means of increasing the customer base. In this model, SMEP has appointed their premium customers in key towns to receive deposits and offer withdrawal services for customers. The agents earn commissions for all transactions made but are required to deposit a minimum float of fifty thousand shillings with SMEP. Except for a mobile phone and monitoring costs, SMEP avoids the massive establishment costs of more banking branches but gains advantage of many cash access deposits and withdrawal points.

4.3.5 Partnership Based Strategies

According to the interviewees, the Board and Management of SMEP deliberately resolved to venture into agricultural financing, a sector which many lenders have avoided owing to high risks of default. SMEP partnered with MESPT for development of profitable agribusiness products but the risk premium was too high to make the products competitive. SMEP therefore partnered with USAID and secured a guarantee of four hundred million shillings for any loses in agribusiness lending. This reduced the risk premium on loans by half, making the loan product affordable. Leveraging on this partnership has made SMEP roll out a plan of building agribusiness portfolio from million shillings to six billion shillings in five years.

The interviewees also discussed how SMEP entered into partnerships with leading motor bike brands who target the *boda boda* market. According to the managers in SMEP, a major limitation for uptake of quality moto bikes by boda boda operators is financing. SMEP has partnered with Honda Kenya, TVS, and HeroMotorCorp to finance 75% of the retail price of the motor bikes. The dealer shops of these motor bike providers are in key towns in Kenya where SMEP has branches.

To increase brand visibility and brand credibility, the interviewees identified partnership with the Government of Kenya to disburse Women Enterprise Fund and Youth Enterprise Fund as a significant business opportunity. The interest on these find is at a reducing rate of 8% which the Management argues is not profitable, but listing of SMEP by the government as the only regulated microfinance institution participating in the government programs projects SMEP as a trustworthy financier. The loans are also used as bait for new youth and women groups.

When asked about strategies that SMEP has leveraged on partnerships to offer competitive products in the market, the interviewees discussed how the Board and Management of SMEP introduced products that will bring quantifiable benefits to the households of customers. These products were targeted at improving the living conditions of the rural micro entrepreneurs. Firstly, SMEP partnered with a global organization called Water.org for the provisions of water credit products. These comprises of lending for: gutters and tanks for water harvesting and storage; sanitation by erecting of toilets, septic systems, soak pits and drainage systems; and drilling of boreholes. Secondly, SMEP partnered with Lighting Africa to finance households for acquisition of solar kits and fuel saving cook stoves. These partnerships not only promote the health and comfort of customers, but also translate into economic benefits through savings in terms of time, medical bills and fuel usage.

4.4 Impacts of Strategy on the Performance of SMEP

The researcher sought to establish the impact of the strategies adopted by SMEP on the overall performance of the company. The interviewees provided audited financial statements and operational information for seven years for the years 2007 to 2013. The interviewees also provided explanations on the results for the seven year period. The researcher gathered industry information from the Central Bank of Kenya reports to evaluate the relative market share of SMEP.

Table 4.4.1: Financial Information for the Eight Years from 2007 to 2014

Year	2007	2008	2009	2010	2011	2012	2013	2014
Revenue (Ksh '000,000')	167	235	308	345	502	597	618	654
Expenditure (Ksh '000,000')	166	221	285	332	467	515	591	771
Profit before tax (Ksh '000,000')	1	14	23	13	35	82	27	-117

Source: SMEP Deposit Taking Microfinance Ltd audited financial statements.

From the findings, the strategies adopted by the company resulted in a consistent trend of growth of about three times in revenues. The study also indicates that the company experienced consistent growth in profits except in the years 2010 and 2013 where more costs were incurred to attain a deposit taking license from the Central Bank and expand the banking branch network respectively. In year 2014, a loss was realized arising from a more than proportionate growth in expenditure relative to income.

. **Table 4.4.2: Operational Information for the Eight Years from 2007 to 2014**

Year	2007	2008	2009	2010	2011	2012	2013	2014
Customers ('000')	30	38	63	94	125	151	175	218
Savings (Ksh '000,000')	337	422	527	614	813	1,014	1,253	1,325
Loans (Ksh '000,000')	613	881	1,005	1,260	1,532	1,575	1,922	1,860

Source: SMEP Deposit Taking Microfinance Ltd management reports.

The findings indicate that the customer base, savings mobilized, and loans advanced grew consistently in the five years strategic period and the same growth trend continued till year 2014. The trend of outstanding loans assumed a dipping trend in year 2014. This implies that the strategies adopted by SMEP have been effective in realizing customer and savings growth objectives. The strategies for growing the loan advances to customers were however effective until year 2014 where a reverse trend was experienced.

Table 4.4.3: Relative Market for the Eight Years from 2007 to 2014

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Customers (%)	10.5	10.8	11.3	11.3	11.2	17.4	18.6	12.5
Loans (%)	8.8	8.0	8.5	8.1	8.2	9.4	7.9	4.1

Source: SMEP Deposit Taking Microfinance Ltd management reports and Central Bank website.

The findings show that SMEP has maintained the market share as measured by both customer base and loan advances during the strategic period. This implies that the strategies adopted by SMEP are not effective in gaining a competitive advantage, but are effective only for survival. From year 2013, the market share as reflected by the loans to customers has assumed a declining trend which shows that SMEP is losing its market share. .

4.5 Discussions of the Findings of the Study

According to the research findings, SMEP formulates a strategic plan that borrows from various strategic concepts and theories. According to Adcock, Halborg and Ross (2001), a competitive strategy is researched, planned and resourced activity. SMEP sets out to research an effective strategic road map, and formulate comprehensive plans in form of strategic plan and annual budgets with an aim of achieving strategic objectives.

The product/market based strategies SMEP has adopted include market penetration by offering existing products as advanced by Johnson et al. (2008). The financial products that the company offers to the majority of her clients are microcredit and micro savings products which the company has offered since inception. A diversified product range has supported the growth strategy of the company, with new products introduced to serve new segments of the market. The company did not acquire any new firms in this strategy as argued by Pearson et al. (2007), but rather has developed new products and placed them in the target segments with heavy marketing activities

SMEP serves most of her customers using the mobile banking and cards technologies which are supported by a dominant technological platform that is not easily affordable by other players in the industry. This is consistent with the argument by Pearce et al. (2007). The technological framework of SMEP enables the company carry out a nationwide operation with no need of establishing too many physical branches. SMEP has further employed partnership based strategies by engaging key international firms that provide cheaper sources of funds, loan loss guarantee, and mobile assets for financing customers. Barney (2007) refers to partnerships of this nature as non-equity alliances. Thompson et al. (2007) warned of fifty percent chance of failure in strategic partnerships arising from diverging views and priorities. SMEP's approach in vetting strategic partners has worked so far.

For a sustainable competitive advantage position, Wikipedia (2009) proposes offensive marketing strategies while as Porter (1998) vouches for companies to preserve the difference they establish. SMEP has not employed any of these strategies in the research period. SMEP has also shied away from pricing wars promoted by Hauser (1990) or maneuvering strategies argued by Mintzberg et al. (2003). Instead, SMEP has focused on continuous product innovations and process improvements which are well argued by Thomas et al., (2007). The sole reason that SMEP grows in business but loses the market share could be that SMEP does not pursue strategies of attacking competition.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

The study was focused on strategies adopted by SMEP Microfinance Bank to gain a sustainable competitive advantage. This chapter discusses the summary of research findings, conclusions, and recommendations arising from the findings of the study which comprised interviews with senior managers of SMEP and a review of company documents,

5.2 Summary

The study was on the strategies adopted by SMEP to gain a sustainable competitive advantage. The researcher obtained data by interviewing top management officials of SMEP thereby attaining the objectives of the study. The findings indicate that strategies employed by SMEP have are crucial in growing the customer base, deposits mobilized, and loans disbursed. Such growth is requisite to gaining a sustainable competitive advantage.

Several strategies adopted by SMEP to gain a competitive were identified including developing all-inclusive financial products for microfinance group segment, introduction of new products for churches and SME segments, attacking competitors through periodic intensive advertising campaigns, adopting high capacity technological and distribution systems, and engaging in strategic partnerships to increase the range of products on offer, reduce the risk of loan default, and increase brand credibility.

The strategies adopted by SMEP have resulted in growth of client base, deposits, and loans of 313%, 142%, and 150% respectively between the years 2007 and 2011. Although the relative market share of SMEP has remained unchanged at 8% for the same period, SMEP has effectively defended its position as the third largest microfinance institution in the country. After the strategic period however, the strategies employed have not been effective in defending SMEP's market share which fell 4.1% in year 2014

5.3 Conclusions

From the research findings, it can be concluded that deliberate strategies must be formulated and implemented for a microfinance institution to gain a sustainable competitive advantage. By crafting strategies that match products to specific markets, leveraging on technological innovations, expanding the branch and agency network for wider access by customers, and engaging in strategic partnerships, a microfinance institution will not only grow its business, but also defend its position in the industry. Boards and senior managements of microfinance institutions must set objectives of gaining a competitive advantage and then formulate strategies to meet the set objectives.

Gaining a competitive advantage in itself is not enough. While a competitive advantage will secure for a company a vantage position relative to competitors, it will require deliberate formulation and implementation of strategies that will ensure the competitive advantage is sustained. Microfinance institutions must therefore employ methods of continuously monitoring the changes in the business environment so as to align their products, technological capacities, and delivery structure to those changes and consequently remain relevant.

A successful competitive strategy is one that results in an increase in the market share. In case where the market share of an institution shrinks, the management should immediately determine remedial strategies to employ to revert the trend otherwise the survival of the institution would be under threat.

5.4 Recommendations

The study recommends an assessment by microfinance institutions of their competitive advantage. Every institution must answer the question of what they have that their competitors lack, and which gives an opportunity to increase their market share. Strategies must therefore be adopted to exploit such an opportunity and secure an increase in market share. Every institution must also answer the question of how long such an advantage can remain theirs and adopt strategies of preventing other players from accessing opportunities, or limiting their access.

Microfinance institutions should measure the competitiveness of their strategies by the size of market share. Each institution must establish the drivers of growth or reduction in the market share and develop strategies around such drivers. The institutions must adopt strategies that address products, technology, and delivery framework.

There is need for microfinance institutions to identify all players in the market that can encroach on their market share. They must consider not only competition that comes from players in the microfinance industry, but also the players in the wider competitive landscape that which includes commercial banks and cooperative societies.

5.5 Limitations of the Study

Firstly, the study was based on one regulated microfinance institution which may not entirely be representative of all institutions in the industry. The strategic period that formed the basis of the study was the five year period from 2008 to 2012. In that period, the priority was to transform SMEP from a credit-only to a deposit-taking microfinance institution. A strategic period for an already regulated institution would perhaps be more representative of other institutions in the industry.

Secondly, the industry data gathered from secondary sources may be unreliable considering that such data was presented for other purposes. Such data was therefore used for general discussions in the study.

Lastly, gaining of competitiveness by a microfinance institution may be contributed significantly by enabling factors such as favorable regulations and macroeconomic trends and not necessarily on effective strategy formulation. The study did not consider such other factors.

5.6 Suggestions for Further Studies

Whilst this study focused on the strategies adopted by only one microfinance institution to gain a sustainable competitive advantage, there is need for studies on such strategies adopted by all regulated microfinance institutions. Such studies should explore successes and challenges in implementing the strategies formulated.

Other studies can be carried out in singular institutions based of their success or failure. A study should be done on strategies adopted by the fastest growing microfinance institution by market share.

Further studies can be carried out on strategies adopted by commercial banks and sacco societies in response to the developments in the microfinance industry. Alternatively, a study can be done on strategies adopted by microfinance institutions to counter actions of commercial banks and Sacco societies.

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APPENDICES:

APPENDIX I: INTERVIEW GUIDE

Goal of the interview process

To establish what strategies SMEP has formulated and implemented to achieve a competitive advantage and whether a sustainable competitive position has been reached out of those strategies.

Interview Questions

The following sections provide sample questions to be used in establishing the strategies adopted by SMEP to achieve a sustainable competitive advantage.

SECTION A: RESPONDENT'S BACKGROUND

- How long have you worked with SMEP?
- What level of strategy does your position occupy?
- How many times have you been involved in strategic formulation for SMEP?

SECTION B: STRATEGIES FOR ACHIEVING A SUSTAINABLE COMPETITIVE ADVANTAGE

1. What is the desired positioning of the company in the industry?
2. How does the company assess the positioning of competitors?
3. How does the company go about formulating strategies to position itself as desired?

4. Are the strategies formulated documented?
5. Does the company monitor implementation of competitive strategies?
6. Does the company have means of measuring its competitive advantage?
7. Does SMEP have access to resources which competitors may not access as easily (or as cheaply) as SMEP?
8. Does SMEP have products which competitors are legally unable to imitate, for example, owing to patents and trademark laws?
9. Does the company have activities such as service delivery programs which competitors are unable to match?
10. Are there aspects of corporate culture on other internal dynamics which contribute to SMEP's competitive position, but which competitors cannot copy?
11. Has the company pursued a low cost leader strategy?
12. Does SMEP differentiate her products from those of competitors?
13. Has SMEP defined a market segment in which to employ a low cost strategy?
14. Has SMEP defined a market segment in which to employ a product differentiation strategy?
15. Between cost leadership and differentiation strategy, which one has SMEP consistently employed?
16. Does the company have an adequate resource base to employ either a low cost or differentiation strategy?
17. Does the company exploit economies of scale to solidify its market position?
18. Has SMEP adopted any strategy for market penetration to increase its market share?
19. Does the company have a strategy for continuous product development to ensure product offerings adequately meet the demands of clients?

20. Does the company pursue any market development strategies through adding channels of distribution, expanding the scope of advertising, or aggressive promotion?
21. Has SMEP adopted any diversification strategy by entering new markets with new products?
22. Has SMEP entered into any strategic equity or non-equity alliance, partnership or joint venture with a view to beat competition in accessing new technologies, markets, products, resources, or to share costs and risks?
23. Has SMEP employed any strategy on vertical integration by engaging in value chain activities that enable control of inputs or demand for products?
24. Does the company have strategies for attacking competitors through intensive advertising and new product development?
25. Does SMEP encroach on competitors' market segments through expanding to their niches or introducing wide range of products which steal their market share?
26. Does SMEP adopt new technologies to leapfrog competitors?
27. Does SMEP employ tactics which trigger chaos within rival firm's internal environment?
28. Does SMEP capture good ideas of rival firms and improve on them?
29. Has SMEP used any guerilla warfare tactics, such as low-balling on price to grab market share of complacent rivals?
30. Has SMEP ventured into a new or distinctive market segment where no competitor has been?
31. Has the company employed pricing strategies to make it remain competitive in the industry?
32. Has the company employed IT strategies to lock in customers, build relationships, create switching costs, or raising barriers to entry for new entrants?
33. Does SMEP mutually cooperate with competitors to contain rivalry?
34. Does SMEP engage in "cold war" tactics to sustain a competitive position?

35. Does the company make large scale commitment to resources in order to make them scarce for competitors?

36. What other strategies has the company adopted to match up with competition?

37. What strategies has the company adopted to survive in the competitive environment?

APPENDIX II: DATA COLLECTION FORM

1. Does SMEP prepare financial statements? (Y/N)…………………………………………

   (If so, please provide the researcher with the financial statements covering the periods 2007 to 2011)

2. To what extent has SMEP implemented its strategic plan?

   ……………………………………………………………………………………………

   (Please provide the researcher with a copy of the strategic plan)

3. Please provide the researcher with client recruitment schedules and operational information

SECTION A: FINANCIAL DETAILS

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Revenue (Kshs)								
Expenditure (Kshs)								
Profit Before Tax (Kshs)								

SECTION B: OPERATIONAL INFORMATION

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Customers								
Savings (Kshs)								
Loans (Kshs)								

SECTION C: RELATIVE MARKET SHARE

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Customers								
Loans								