THE KEY SUCCESS FACTORS FOR MICROFINANCE INDUSTRY IN MOMBASA

BY

KAHASO, THOYA NGUMBAO

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

Signed fP^XUfi^________________________ Date UoVtrtbir 9q| x

THOYA NGUMBAO KAHASO

Reg. No. D61/P/7141/05

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

Signed____ Date 1 M^U

MR. JEREMIAH kaGWE

Department Of Business Administration

School Of Business

University of Nairobi

DEDICATION

To my beloved parents, my brother and my sisters.

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CHAPTER ONE: INTRODUCTIOiN

1.1 Background of the study

Key Success factors are areas which ensure successful competitive performance of the **organization (Rockart** 1979). Organizations are successful because of various success factors **which they** exploit. These include availability of resources, innovative capacity, superior **products** and marketing capacity.

Microfinance is an aspect of the financial market which is experiencing rapid development in the Kenyan financial scene (Kithinji, 2002). Microfinance refers to small scale financial services such as cash loans, money transfers, direct deposits, savings and insurance made accessible primarily to the poor (Osterloh & Barret 2006). Microfinance is characterized by short repayment periods, graduated increase of loan sizes, sustainability and non conventional ollateral (Nyanjwa 2008).

1.1.1 Key Success Factors

For an organization to be successful, it needs to have strategies with action plans and goals. It therefore follows that an organization will be successful when it is achieving its set objectives, making or exceeding the desired profits, gaining market share and experiencing growth.

Birnbaum (2000) defined key success factors as the most important factors to the success of an organization. Key success factors are also referred to as critical success factors, which, according to Rockart (1979), mean the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. A key success factor can be a specific skill or talent; a competitive capability and something a firm must do to satisfy customers. Key success factors emanate from the core competencies an organization nurtures and develop over time. Kotler (2000) explains core competencies as the core resources and capabilities that make up the essence of the business. Core competencies have three characteristics, they make a significant contribution to perceived customer value, have potential breadth of applications to a wide variety of markets and are difficult for competitors to imitate thus they are a sources of competitive advantage. A microfinance company which is operating in

I a dynamic fast changing financial environment has to ensure for instance that it retains its customers ensures that the loans which it disburses are repaid on time and in full, and also provide innovative services which will keep it in business.

1.1.2 Microfinance Sector in Kenya

According to Nyanjwa (2008) the finance sector in Kenya was served by 43 commercial banks, 96 foreign exchange bureaus, 2 mortgage finance institutions, 5122 Savings and credit societies (SACCOS), 6 development finance institutions and 34 Microfinance institutions. The Microfinance sector in Kenya is currently serving 6.5 million people with outstanding loans of US $ 310 million (amfikenya.com). Nyanjwa (2008) stated that Microfinance in Kenya is carried out by institutions with varied forms including companies, cooperative societies, trusts, Non governmental organizations (NGOs) state corporations and informal operators such as moneylenders and ROSCAs.

According to Omino (2005) there are over 100 organizations in Kenya including 50 Non Governmental organizations (NGOs) which practice some form of Microfinance. 20 of these organizations practice pure Microfinance while the rest practice Microfinance alongsivic social welfare activities. Kithinji (2002) noted that Kenya has had more exposure to microfinance than any other country in Sub-Saharan Africa, with micro-credit programmes dating back to the early 1980s. Omino lists the major players in this sector as Faulu Kenya, Kenya Women Finance Trust KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), (Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust).

The Microfinance sector is licensed and regulated by the Central Bank according to the Microfinance Act (GOK 2006). According to Ndulu (2010) the Microfinance sector regulation has adopted a 3 tiered approach which comprised a prudential regulation and supervision for deposit-taking institutions by the Central bank, a non-prudential regulation for credit only by the Ministry of Finance and finally no regulation for ROSCAs and ASCAs.

1 1.3 Microfinance Sector in Mombasa

Microfinance institutions in Mombasa vary in size and approaches. They provide a variety of services such as loans ranging from Kshl, 000 to Ksh.l million and above to individual group members through the Grameen lending model. They also offer saving products, health insurance and business training for group members. Waweru and Spraakaman noted that Microfinance companies in Kenya place their clients in Self Help groups which serve two purposes these are: to provide mutual support and advice to the borrowing client, and provide the MFI with a guarantee that loans of group members will be repaid. Some of these institutions also provide loan facilities to individual members. The Microfinance institutions solicit for groups through various marketing techniques. In some instances they poach groups from other institutions and in some cases a group might have a financial relationship with more than one institution. Membership of group and eligibility for loan facility depends on an institution. Some institutions limit their membership to business people. Other institutions are targeted such as the Kenya Women Finance Trust; others deal with all types of clients.

These groups meet at various places the common meeting places are church halls, Chiefs' camps and Social halls. These groups meetings take place according to time tables set by the institutions, these meetings can be held weekly, fortnightly or monthly. At these meetings the institution will send a Credit Officer whose principal role is to ensure that the loanees in the group pay the agreed installment of the loans in full and in cases of default ensure that the group members ensure that the weekly installments are paid in full. At these meetings the Credit officer will receipt all monies which the group members collect and the members will then bank the total collection at the end of the meeting giving the Credit Officer a bank slip as proof of payment. In addition to disbursing institutional loans these institutions disburse and collect installments of government loan programmes such the Women Enterprise fund and the Youth enterprise fund

The microfinance sector in Mombasa also has regional players who have a presence only in the Coast province and also institutions that have a presence in more than one region of :he country. Players who have a presence only in the Coast province include Yehu Enterprise Services. Institutions with a presence in other parts of the country include Faulu Kenya, Kenya Women Finance Trust (KWFT) Small &Micro Enterprise Program (SMEP), Equity Bank, and

K-REP **bank** among other institutions. Institutions in Mombasa range from NGO based **Microfinance** institutions and commercial Microfinance institutions.

1.2 Research Problem

According to Pierce and Robison (1997), Key success factors identify the areas which are **important** in the implementation of a company's strategies and these are the areas which should **receive** continuous management attention. According to them, the key success factors for a **service** industry include product quality, customer service, employee morale, competition, cost **control,** product performance against specifications, marketing and expansion of a company's **product line.** Thus the key success factors of an industry from this view point can be seen to be **strategic** in nature and would vary from industry to industry.

According to the Kenya Economic Recovery Strategy (2004), Kenya has a sizeable Small and Micro Enterprise sector which the government is seeking to promote. This sector was estimated to employ 3.2 million people. In spite of this the sector has a problem in accessing financial services. The main role of Microfinance institutions therefore is to mobilize financial re.-ources for a sector which the government has identified as a key driver in the economic recovery and growth of the nation's economy as a source of employment.

Like any other business operating in a liberalized market, numerous challenges exist. These challenges include competition among the players within the industry, competition from outside vendors who supply from outside the country using cheaper sources of funds or grants, negative perception of the Microfinance industry due to the phenomenon of pyramid schemes and ensuring a healthy loan portfolio. The impact of these challenges has been felt in reduced market share of some institutions, reduced profitably due to events such as the post election violence of experienced in Kenya between January to March 2008, and the Global economic recession. In spite of these challenges the industry players need to grow and prosper, especially in light of the fact that ultimately they are financial institutions and they cannot afford a perception of being unable to meet their financial obligations. In view of these, there is need for each organization's management to know the sector's key success factors that would lead to growth and profitability, enhance their areas of strength and address areas of inadequacy and formulate and implement more effective competitive strategies to counter the challenges brought about by the ever

changing business environment. It would therefore be important to identify the key success factors of this industry.

In the past, research studies that have been done on related subjects have focused on **organizations** such as publicly listed companies including commercial banks, fast-moving **consumer** goods manufacturers, (Rukungu, (2005), Wambugu, (2003), among others. Nzioki (2006) examined the critical success factor in the heavy-duty construction equipment sector. The key success factors identified in those sectors, however, cannot be generalized, hence the need to **examine** the Microfinance sector in Mombasa due to the size and importance of Mombasa being the second largest City in Kenya in terms of population and economy.

The microfinance sector is an important sector of the Kenyan Financial landscape. Its importance is shown in the fact that the Government of Kenya, many international donor agencies and a large number of Kenyan NGOs consider micro-finance as a key instrument.
For micro-enterprise development and poverty alleviation (Hospes, Musinga & Ongayo 2002). The sector provides services for a substantial proportion of the Kenyan population the figure is estimated to be 15% of the population (www.fsdinternational.org). In their country industry is also resilient in spite of high inflation rates which affected the country. The industry in Kenya is characterized by innovative practice and progressive government policies which have made the sector one of the most developed in Sub Saharan Africa (www.mixmarket.org). The impact the sector has on the Kenyan society is significant, and it is important to discover what has made these institutions survive and thrive.

The Microfinance sector in Kenya has been extensively studied. Nzioka (2010) studied the impact of Mobile banking on the Microfinance industry, Mugwanga Hulme and Kashangaki (1999) studied the effect of dropouts in the Kenya Microfinance industry Ndulu (2008) wrote on the case for regulation of the Microfinance industry, There have been no studies on the Key success Factors in the Microfinance industry in Mombasa The proposed study will seek to fill the knowledge gaps by providing answers to the following research question What are the key success factors in the Microfinance sector in Mombasa?

1.3 Research Objective

The objective of this study is to identify the key success factors for the microfinance sector in Mombasa. Kenya.

1.4 Value of the Study

The study will be useful in several ways. Microfinance companies may use the findings to **put** in place effective strategies to enable them sustain a competitive advantage in a changing **financial** environment These companies can critically examine their core competencies and **strengthen** them and identify weaknesses in their organizations and threats in their external **environment** and react accordingly. The findings of the study will therefore be of benefit to them.

The Study may be useful to the regulator that is the government. The Study will inform policy makers in fine tuning policies to enable the industry provide better and more efficient services.

The study may also help potential investors in the sector to form a better understanding of the strategies used by successful Microfinance institution to create and maintain customer loyalty. The academicians and researchers may use the findings as a source of reference for related studies or further research in future.

CHAPTER TWO LITERATURE REVIEW

2.1 The Concept of Strategy

According to Ghemawat (2002), "Strategy" is a term that can be traced back to the ancient Greeks, for whom it meant a chief magistrate or a military commander in chief. The use of the term in business, however, dates only to the twentieth century, and its use in a self-consciously competitive context is even more recent. Steiner (1979) notes that strategy is often seen as a way of referring to what one did to counter a competitor's actual or predicted moves. He further points out that there are various definitions of strategy in the business world which do not point to a universal definition but rather different definitions which while not in conflict do not exactly mean the same thing. Strategy can therefore be summarized as the means, the plans, and tactics that organizations must develop to achieve their long-term objectives that define their purpose of existence.

Mintzberg (1987) argued that strategic management cannot afford to have one definition of strategy as the word has been implicitly used in different ways although it has one formal definition. Mintzberg put forward a concept of strategy as "5 Ps". This concept considered 5 aspects which can be used to describe strategy complementing the formal definition. Mintzberg looked at strategy as a plan, a process, a ploy, a pattern and as a perspective. In his argument, Mintzberg posed the following: strategy as a plan is the aspect of strategy as an intended course of action, planned in advance to and explicitly stated in formal documentation. Strategy as a pattern is where strategy is seen in a pattern of consistent behavior in the institution. Strategy as a ploy is an aspect of strategy being used to outwit an opponent. Strategy as a position is when strategy is used as a means of locating an organization in an environment where strategy becomes the moderating force between the organization and the environment. The aspect of strategy as perspective is where strategy is not only a chosen position but an ingrained way of perceiving the world.

According to Mintzberg (1994), strategy emerges over time as intentions collide with and accommodate a changing reality. Porter (1986) argues that competitive strategy is about being different. He adds that strategy means deliberately choosing a different set of activities to deliver a unique mix of value. He further explains that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of **activities** different from those used by competitors. He defines competitive strategy as "a **combination** of the ends (goals) for which the firm is striving **and** the means (policies) by which **it is** seeking to get there." Thus, Porter seems to embrace strategy as both plan and position.

Nickols (2000) observes that strategy is the bridge between policy or high-order goals on the one hand and tactics or concrete actions on the other. Strategy and tactics together straddle the gap between ends and means. In short, strategy is a term that refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends.

Hamel and Prahalad (1993) critiqued the aspect of strategy as a match put forward by Mintzberg (1987) in his 5Ps concept of strategy. They proposed that strategy be viewed as stretch. This will bridge the gap between those who view strategy as a pattern and those who see strategy as a plan. They pose that strategy as stretch is strategy by design where the management has a view of the goal line and on the other hand strategy as stretch is strategy by incrementalism. They say that strategy as stretch recognises the paradox that leadership cannot be planned for but it can neither occui withuut aspiration.

Strategy can therefore be summarized as the means, the plans, and tactics that organizations must develop to achieve their long-term objectives that define their purpose of existence. Organizations need to develop appropriate strategies that ensure their continued existence and chart their future growth plans, prepare for countering competitive moves and adjust to changes in the environment in which they operate. Yabs (2010) notes that strategy is now increasingly being used in Kenya to reflect broad areas of an enterprise operation and is used to refer to the general plans of an enterprise covering a longer period over annual objectives.

In conclusion it can be argued that the various definitions of strategy are complementary to each other. From the above authorities, it can be seen that strategy must start from a certain point and is authored to fit certain conditions. From the arguments of Hamel and Pralahad (1993) it can be argued that strategy is an evolving phenomenon in business and organizations.

A consequence of strategy is the ability of a firm to identify and develop Key Success factors. According to Rockart (1982), key success factors are the few areas of activity in which favourable results are absolutely necessary for a manager to meet his goals. Earlier, Rockart

(1979) defined key success factors as the limited number of areas in which satisfactory results will **ensure** the successful competitive performance of the organization

2 2 Sustainable Competitive Advantage

After a firm determines its key success factors for the industry in which it is operating it **can achieve** competitive advantage. Competitive advantage is the company's ability to perform **in one** or more ways that its competitors cannot match (Kotler 2000). Kotler observes that **competitive** advantage is seen as a customer advantage. Companies strive to build sustainable **and** meaningful customer advantages. The advantages that succeed deliver high customer value **and** satisfaction, and this in turn leads to repeat purchases and, therefore, high company profitability. Yabs (2010) defines competitive advantage as the capacity a firm has over others. **He says** it is what gives a firm an edge over other others .this enables the firm to add superior value to the products and services rendered to its customers.

Porter (1998), explained that competitive advantage fundamentally grows from the value that a firm is able to create for its buyers that exceeds the firm's cost of creating it. Porter (1998) identified two types of competitive advantage these are cost leadership and differentiation In the microfinance sector cost leadership would imply giving loans with the lowest relative interest rate, while differentiation would be like an institution such as the Kenya Women Finance Trust (KWFT) which caters exclusively to female clients. Once an organization knows the key success factors for the sector in which it operates, it can achieve sustainable competitive advantage. Kotler (2000) defines competitive advantage as a company's ability to perform in one or more ways that competitors cannot or will not match.

Bhradwaj, Vadarajan and Fahy (1993) quote Barney who noted (1991) who noted that competitive advantage can result from implementation of value creating strategy not being implemented by current or future competitors or by the superior execution of the same strategies being implemented by firm competitors. Porter (1985) states that sustainability of this advantage is achieved when it cannot be eroded by competitor behavior. Barney (1991) noted that the skills **and** resources underlying firm's competitive advantage must resist duplication. From the above it can be argued that for a firm to develop a sustainable competitive advantage it has to invest in **and** develop a set of skills and resources upon which the advantage can be based upon

Innovation, efficiency and customer responsiveness can be regarded as three of the main building blocks of competitive advantage. Kotler (2000) observes that competitive advantage is seen as a customer advantage.

Bhradwaj, Vadarajan and Fahy (1993) note that sustainable competitive advantage in the service industry which the Microfinance can be said to be part of has to be means of company attaining superior long term financial performance. They also note that sustainable competitive advantage is contingent on a firm sustaining and enhancing investment on its present sources of competitive advantage as well as reinvestment in new skills and resources.

Hamel and Prahalad (1990) see the source of a company's competitive advantage s deriving from Core competencies.

2.2.1 Core Competences

Prahalad (1993) identifies a core competence as a significant source of competitive differentiation providing a unique signature to the organization covering a range of business and is difficult to be imitated. He further argues that a competency permeates the whole organization and it represents tacit learning in the organization including governance. Prahaiad (1993) further notes that in several instances core competencies are confused with capabilities. Capabilities are in most cases prerequisites of being in business. He concludes that although a capability is crucial for business survival it does not confer a specific differential advantage over other competitors in the industry like a core competency.

Johnson and Scholes (1999) define core competencies as the abilities which critically underpins an organization's competitive advantage. They differ from company to company depending on the strategy being pursued in the company. Johnson and Scholes (2002) noted that strategic capability is determined by the resources available to the organization which are deployed into the activities of the organization to create competencies.

Yabs (2010) noted that core competencies give a company an edge during competition. He further points out that a company cannot go into competition unless armed with core competencies.

Hamel and Prahalad (1990) note that core competencies unlike other assets do not diminish with use but are enhanced as they are applied and shared, but also need nurturing and protection. They further state that core competencies are the glue which bind existing business.

Microfinance institutions have provision of credit as their core business and as such they need to create and maintain competencies in provision of financial services, debt management and collection from defaulters to ensure their survival in business. In an industry where most companies offering a similar product the differentiation which will be created by core competencies and competitive advantage will be critical in profitability and success.

2.3 The Concept of Key Success Factors

According to Rockart (1982), key success factors are the few areas of activity in which favourable results are absolutely necessary for a manager to meet his goals. Earlier, Rockart (1979) defined key success factors as the limited number of areas in which satisfactory results will ensure the successful competitive performance of the organization. He further argued that a key success factor can be a specific talent or skill, a capability or something which the firm must do to satisfy its customers. From these two definitions key success factors can be viewed as the specific skill and competences a firm needs to compete well and also the specific things a firm in any industry must concentrate on doing well.

Grunert and Ellegaard (1992) define key success factors as market specific business skills with high leverage on perceived value and relative costs. Which also correspond to some market characteristics. This they state shows that a skill or resource can be a key success factor in one but not in another market.

Key success factors are also referred to as critical success factors in literature. According to l Ideaje and Ibe (2006), critical success factors in the MFI sector include the ability to reach new clients, appropriate lending methodology, productivity, a supportive regulatory environment, ability to attract, train and retain staff, appropriate market segmentation and the use of an appropriate management information system. The ability to reach new clients is an aspect of how the MFI will market itself.

2.3.1 Marketing Strategies

A major key to success in the service industry is having the right marketing strategies. **Kotler** (2000) defines a marketing strategy as a game plan for reaching an organization's set **goals,** addressing issues such as new product development, pricing, location of operations and [l]he promotion of the institution and its products. Pierce and Robinson (1997) noted that strategic **managers** recognize that sustained competitive advantage is rarely achieved by short term profit maximization. Establishing long term objectives in areas such as profitability, productivity, competitive position and dominance, customer service, employee development, technological leadership and public responsibility will be the best way to achieve long term prosperity. Wright et al (2003) notes that the growth in the Microfinance sector and the competition within has led **Microfinance** institutions to re-examine their products and delivery systems so as to better **respond** to their clients' needs. They further observe that this development of a client- responsive **and market-** led approach to the Microfinance industry is an important watershed in the industry. According to Wright et al (2003), the objectives of Microfinance institutions initially were to attract and retain clients which would enable them increase their market share while remaining profitable. They argue that this objective has now evolved to include understanding the external environment and incorporating this knowledge into their business strategy. Microfinance institutions have also begun studying the behavior of their existing and potential clients. By understanding their market and prospective clients MFIs have been able to tailor their products **and** their price offerings. Wright etal (2003) observe that in the highly competitive Kenyan MFI **industry** competition has **developed** in three stages: initially it was access to service, the next step was customer services and the next level is that of price. It can be argued that the marketing strategies used by players in the MFl sector have to be abie to give the relevant institution **mileage** in all those areas. According to Churchill (2000), the most important marketing strategy **in** the MFI industry is to enhance customer loyalty to ensure that the customer is retained. Churchill notes that loss of a good customer in the MFI will have a negative financial **consequence** in the MFI and also **affect** other members in the institution. He **notes** that if an institution is loyal to its clients by providing them with valuable service which improves as the clients' needs change, the clients will be prepared to enter into a mutually beneficial long term relationship.

Pierce and Robinson (1997) suggest that a firm's growth is tied to its survival and probability. They argue that although the Profit Impact on Market Share (PIMS) studies have shown that growth in market share is correlated with profitability, other important forms of growth do exist. These include growth in new markets served; increase in the variety of products offered, and improvement in service offered which leads to improvements in a firm's competitive ability. This can also be correlated into the Microfinance industry as the more new good clients they get, the more profitable they become. Hulme et al (1999) observes that most Mr Is in Kenya have an aggressive credit policy. Their clients are virtually forced to take loans as MFIS need to pump out loans to achieve sustainability and profits.

A marketing strategy in the Microfinance industry is a source of competitive advantage in an industry where most providers provide homogeneous product. A good marketing strategy aggressively followed will enable the company attract more customers and ensure that its products and services are well known. The visibility which a marketing strategy will bring will be source of competitive advantage in the industry.

2.3.2 Product Attributes

Kotler (2000) defines a product as anything that is offered to a market to satisfy a want or a **need.** Kibera and Waruingi (1998) define a product as anything that is offered to customers to **acquire** or purchase. They further argue that the term product covers physical objects, services and ideas. These two definitions are not contradictory. The products under discussion in this study are financial services provided by MFIs which are basically loans and saving facilities.
Udeaja and Ibe (2006) note that the suitability of a Microfinance product is a Key success factor in the MFI. Thus the market should be appropriately segmented with loan products and other financial services which should cover all costs of providing the services and also be able to minimize the transaction and opportunity costs to the client. This explains the fact that Microfinance institutions have moved beyond group lending to lending to individuals. An example is the Kenya Women Finance Trust (KWFT) who had outstanding loans to individuals worth Ksh 60 million in 2009 (www.kwft.org). Aghion and Morduch (2000) noted that this was marked change in Microfinance strategy when it was begun by Grameen bank. Morduch (2000) note that group lending in Microfinance has been a success especially in clients who are less established and wealthy. They note that group lending has both benefits and costs. The benefits are primarily in the self policing and group guaranteeing in the groups. The costs are that attending group meetings and monitoring group members is both expensive and time consuming.

According to Johnson and Scholes (2002), the success of an organization is related to how Well it is able to provide product features or attributes that are of value to customers at a given Price. The product features that customers value will vary over time. Initially microfinance •nsututions offered loans and savings products but have now started diversifying. Udeaja and Ibe **(2006)** note that the diversification of K-rep bank from a purely microfinance institution to provide products such as group loans, individual loans, group savings , savings accounts,

voluntary savings, involuntary savings accounts, current account, letters of credit and ATM services.

2 3 3 Organisation Resources

Resources are a key success factor for MFIs. Kotler (2000) noted that a company needs resources to carry out business successfully. These include capital, labour, materials, machines, information and energy. Labour is an important resource in the MFI industry. Udeaje and Ibe (2006) identify Human Resources as a key success factor in MFI. They identify the ability to attract and retain human resources as a factor in the growth of an MFI. According to Rockart (1979), employee attraction and retention is a key element in attaining business success. It can be argued that organizations that are concerned with growth will spend considerable amount of time and money to attract, train and retain their employees. These employees are especially valuable assets to the institution. Other resources used by the MFI can be owned, leased or rented. Johnson and Scholes (2002) identified the availability of resources to an organization as a major plank in the strategic capability. These resources are the ones which are deployed to create competencies.

Finance or availability of cash is an important resource in Microfinance. Ledgerwood (1998) notes that the MFI sector has grown substantially since the 1980s. This growth has led Microfinance institutions to provide saving services to their clients and access market funding sources rather than depend on donor funding as they initially did. She notes that some MFI access funding through Commercial banks in addition to the donors and partners they have. Availability of cash implies the ability to disburse loans to clients, which will attract clients to the institution and ensure a longer lasting relationship between the clients and the institution.
In the Microfinance Act (2002) the minister of finance stated that the Central Bank may prescribe minimum ratios which may be maintained by institutions between their core capital and total capital on one hand, and advances and off balance sheet items on the other hand and may also determine the method of classifying and evaluating items. From this it can be seen that a certain threshold of resources is required for a MFI to operate in Kenya. Further, the Act states that a Microfinance institution shall maintain such minimum holding of liquid assets as the Central bank may determine. It can be seen that for Microfinance institution to actually operate

in Kenya there is a certain threshold of resources required by statute which shall be determined by the Central Bank of Kenya.

From the above it can be seen that resources are **a** very key success factor in the Microfinance industry. Proper utilization of financial and human resources in the industry will enable a firm achieve a sustainable competitive advantage. This will come from a well trained **motivated** staff and financial resource base which will enable the firm disburse loans and undertake growth strategies,

2.3.4 Customer and Brand Loyalty

Another key success factor in the microfinance industry is Customer loyalty. According to Kotler (2000) a high customer satisfaction or delight creates an emotional bond with the product or service. High customer loyalty is developed by delivering high customer value in the eyes of the customer. In delivering high value the customer wins customer loyalty, the market share and revenues go up and the costs of acquiring customers goes down. . According to Kotler (2000) a product or service must go beyond visibility and differentiation to achieve loyalty.

According to Churchill (2000) Enhancing customer loyalty is a microfinance institution's most important strategy and every critical element involved in managing microfinance operations should be formulated to promote loyalty. Churchill further notes that the loyalty has to be earned and that if an organization is loyal to its customers and is committed to providing them with a valuable service which it improves as the customer's needs change then the customers are likely to repay the favour in the form of a mutually beneficial long term relationship. According to Kumar, San and Newport (2006) by designing products to the evolving needs of clients the MFI can build client loyalty through customer service thereby increasing the customer base, this means that the financial services of n MFI must be designed in response to the needs and capacities of the clients. According to Kotler (1999), to achieve loyalty, a product or service must go beyond achieving visibility and differentiation, according to Kumar, San und Newport (2006) MFIs face difficulties in differentiating their services from those of the competititors particularly when the market is facing an intensive price competition, they suggest a solution to this is to develop a differentiated offer, delivery and a brand image. With the offer including innovative features to distinguish itself from competitor offers.

Customer loyalty will lead to a sustainable competitive advantage as the firm will be able to have long term customers who they can use as success stories in marketing strategies. It can also led to new business s these customers can attract new clients through word of mouth.

2 4 Summary of Literature Review

The literature reviewed in this chapter has highlighted the strategies that would be necessary **for the** success of microfinance institutions as well as the key factors critical for their success in **the sector.** From the available literature success factors are industry specific and even organizations such as commercial banks that have entered the Microfinance industry have to take **these into** account for their survival in this sector. Further players in this sector of the economy **have to** take into account changes in the external business environment, policy decisions made **by the** government affecting the industry and changes in the sector which they serve **Microfinance** institutions also need to formulate strategies for the short term, medium term as **well as** the long term. These strategies have also to be flexible and adaptable to market and **external** environment change an example is the advent of mobile telephone money transfer which **organizations** such as SMEP have embraced in loan disbursement and are also encouraging **customers** to use in loan repayment.

The organization also needs to know the factors that make a market attractive, know and nurture their core competencies, know the product attributes which their existing and potential customers value most. To be successful microfinance institutions also need to find new ways of business growth and raising profit margins, carry out long-term planning for new market penetration, enhance service quality and competitiveness and make improvements in customer care. The literature reviewed in this chapter will therefore guide the researcher in carrying out the relevant data collection and analysis so as to seek answers to the research questions highlighted **in** Chapter One.

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Research Design

The study was a descriptive survey. Descriptive research was used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation (Key 1997).

According to Kotler (2000), a study concerned with finding out magnitude of a phenomenon is a **descriptive** research design. The purpose of the design will be to provide descriptions of the **population** under study in order to answer the research questions .The purpose of the design is to **establish** the key success factors for the microfinance industry in Mombasa. .

3.2 The Population

The population of interest in this study consisted all the microfinance companies which are members of the Association of Microfinance Institutions of Kenya (AMFI) active in Mombasa. The population was initially identified from the lii>t of microfinance organizations obtained from www.amfikenva.com. the website of the Association of Microfinance Institutions of Kenya. This list is given in Appendix 1. The population of the Institutions studied was identified from each organization's website which showed whether they have a prescence in Mombasa. The population was 14 institutions

3.3 Sample Selection

The size of the sample was determined by the organizations' activities. Some of them have a presence throughout the country while others are only active in the coast province. No single document listing members of AMFI active in Mombasa could be obtained, so the researcher sampled the population by visiting each institutions web site to ascertain whether they have a prescence in Mombasa. In this context prescence was taken to mean physical office space in Mombasa. This led to the population of the sample being limited to 14 organisations

The population was sampled from Members of AMFI exclusively in spite of the fact that there are other Microfinance institutions which are not members of AMFI. The reason or this was the fact that AMFI as an umbrella body of Microfinance Institutions has a history of cooperating with the government and they worked in conjunction with the Government in the formulation of the Microfinance act (www.fsdinternational.orgV

3 4 Data Collection Method

A semi structured questionnaire was used to collect primary data. Kibera and Waruingi (1988) note that a questionnaire is used when the researcher requires information on the respondents' feelings, attitudes and motivations.

jhe questionnaire used the 5-point Likert scale to measure the relative importance of the key success factors to the Microfinance industry. In order to operationalize the key success factors for Microfinance industry, the variables were defined as shown in appendix 4. Semi structured questions were used to measure the impact of the success factors on credit performance.

The questionnaires were administered through personal interviews to allow for probing of the respondents. Where this may not be possible, the questionnaire will be left with the respondent, to be filled and collected later. One respondent will be interviewed in each company. This will be a senior manager, preferably in the credit functions.

The questionnaire was divided into 3 parts Part I contained questions on the general information of the Microfinance institution. Part II contained questions on key success factors of the Microfinance institution. Part III contained information on the impact of the success factors on performance.

3 5 Data Analysis

Descriptive statistics was used to analyze the data collected. Data collected in part 1 of the questionnaire data was analyzed using frequency distribution and percentages. Data in part II of the questionnaire was analyzed using mean scores to determine the extent of the importance of the key success factors. Mean scores were used to determine the key success factors . A mean score of less than 2.5 was considered as of low importance for success in the industry; a mean St;ore of between 2.6 and 3.5 will implied that the factor is important and any mean score of more than 3.6 implied the factor is of very high importance.

CHAPTER FOUR: DATA ANALYSIS,FINDINGS AND DISCUSSION

4 i Profile of Respondents

A census survey was carried out and official requests with the questionnaire attached were **sent to** the 16 AMFI members operating in Mombasa. There were 6 responses which gave a 40% response rate. All the respondents were branch managers of Micro finance companies operating in **Mombasa** city and its environs.

Four of the respondents' organization fall within the age bracket of 11-20 years and two are in **the** 21-30 year age bracket. All the respondent organizations are locally owned. Three of the **companies** employ between 11-20 employees in the Microfinance function, two of them employ between 21-30 employees while one employs more than 30 employees. The companies offer loan services, saving services and customer training.

4.2 Key success factors

The study sought to identify the key success factors in the micro finance industry in Mombasa. **The** respondents were asked to respond to statements describing the importance of key success **factors** in their organizations. The responses were ranked on a scale of 1-5. Where 1 represented **not** important at all and 5 represented highly important. The measure of central tendency of mean **was used** to measure the strength of the score for data analysis. The data was then presented in **tabular form** .

4.2.1 Core Competencies

The findings indicated that the respondents felt that the core competencies were highly important In the industry. The respondents felt that the unique capabilities their institution had was a highly •niportant factor. This is in contrast to the aspect of unique services which the respondent gave less weight. The factor which was given the lowest weight was the contribution the length of time in the industry has to success. On further probing some respondents said that while it was niportant the other factors carried much more weight. From the findings it can be seen that the respondents felt that the unique capabilities the organization had are the most important core that these unique capabilities give the institution an edge in providing a service which can be said to be homogenous in the industry. The findings on the key competencies generally mirror the view of the literature. The respondents feel that the length of time an institution has been in business does have the same level of importance as the others. From the literature it can seen from Hamel and Prahalad (1993) that core competencies do not diminish with use but are enhanced as they are applied and shared. The respondents do not give enough weight to this factor.

Table 1 **Core competencies**

	5	4	3	2	1	Mean
"Ynuhave unique capabilities as a MFI	5	2	1			4.5
Your Credit and Loan officers have unique skills that are valued by customers	3	4	1			4.25
You offer unique services to your customers	1	3	4			3.625
How long you have been in business as a MFI contributes to your success		2	4	1	1	2.875

(Source: research data 2012)

4.2.2 Marketing strategies.

The findings from this section of the questionnaire show that marketing strategies arc an important factor in the success of micro finance companies. Majority of the companies do not carry out advertisements in mass media, but use other methods such as fliers, brochures and sign posts. This was an issue which was clarified as the initial response to this statement was that the companies do not advertise. Portfolio planning is of great importance in helping them advise clients on the loan products and sizes they have to take. The marketing strategies used by the micro finance institutions are keyed to maintain customer loyalty and ensure customers take more loans and increasing their customer numbers. The strategies used by the respondents are very labour intensive such as distributing brochures and fliers.

Table 2 Marketing Strategies

	5	4	3	2	1	Mean
-l^ompany does Portfolio planning	6	2				4.5
i^ingany seeks and gets regular feedback from customers	8					5
Jilcompany participates in trade fairs (shows)	4	3	1			4.375
Llililimvadvertises	3	2	3			3.75

(Source: research data 2012)

4 2.3 Company resources

From the findings, the respondents attach a great importance to company resources. It **was noted** that the public perception of the company to be financially stable was given high **importance** as was also the factor of the company access to credit facilities. Another factor given **great weight** was the ability of the company to extend credit to their major customers.

Table **3 Company Resources**

—	5	4	3	2	1	Mean
"Employee empowerment through training and remuneration to enhance service delivery	6	2				4.75
Company Perceived as financially stable	8					5
Company has access to credit facilities	6	2				4.75
You are able to extend credit to your major customers	8					5

(Source: research data 2012)

4.2.4 Non Financial Services

From the findings of the research, Non financial services are given a high level of importance in the achievement of success in the Microfinance industry. The respondents gave the factors in this part of the questionnaire the level of high importance or important.. Training of new customers was given the highest level of importance by all the respondents. The factor which had a relatively lower weight was the factor of advising clients on the introduction of new services.

Table 4 Non Financial services

	1	Mean
Advising, customers on the introduction of new products and services.		
Jjaining of new customers		
Business advice to customers		
.^acitybuilding of credit staff to offer non financial services		

(Source: research data 2012)

5 **portfolio Management**

The research showed that Microfinance professionals attach a high priority to portfolio **management.** This is the only key success factor whose components were all tagged as highly important. The **respondents** also on further conversation suggested further aspects such as portfolio tracking and controlled portfolio graduation from lower to higher loan levels for clients.

Table **5 Portfolio Management**

	5	4	3	2	1	Mean
Loans offered secured with a reputable insurer	8					5
Loan recovery unit for defaulters	8					5
"Strict adherence to credit policy of institution	8					5

(Source: research data 2012)

4.2.6 Customer and Brand Loyalty

Respondents' responses showed that strong brand loyalty is a major factor in the **company**'s success. Also the responses showed that companies in the Micro finance industry **have** unique identities and these are important in the success of the institutions.

Table 6 Customer and Brand Loyalty

	5	4	3	2	1	Mean
Your customers exhibit strong brand loyalty	5	2	1			4.5
The firm has svmbols to represent its unique identify	8					5
MFI carries out brand building activities	6	1	1			4.625
The brand you sell is closely associated with you	4	3	1			4.375
Does the brand represent a value proposition to customers	2	5	1			4.125
The brand is distinctive	8					5
All companv facilities and vehicles carry the firms' brand	8					5

(Source: research data 2012)

4-2.7 Business Growth and Profitability

The respondents view business growth and profitability as having a great importance. From **the findings** it can be seen that all respondents place a high priority on profitability and increase loan portfolio, in these all respondents gave the maximum importance ranking.

fable 7 Business growth and Profitability

— — –	5	4	3	2	1	Mean
-j^j^portant that Loan portfolio increases annually	6	2				4.75
-pjj^h~market share is important to us	4	3	1			4.375
pect the market share to increase	6	1	1			4.625
"p^jjiess profitability is important to us	8					5
•^h^ontribution of the other products to sales is high	2	5	1			4.125
"]fl7]mportant that Loan portfolio increases annually	8					5

(Source: research data 2012)

4.2.8 Sustainable Competitive advantage

The role of sustainable competitive advantage in the micro finance institutions is tabulated below. The respondents gave high ranking to the competitive advantage derived from market position, low cost of service, and unique service delivery. The role of market leadership and focus on niche markets were given lower relative ranking

Tabie 8 Sustainable Competitive advantage

	5	4	3	2	1	Mean
Customers consider you as the market leader in the MFI sector	3	5				4.375
This position has given you an advantage over your competitors	2	4	2			4
Low cost of service is a source of competitive advantage	8					5
Unique service offered to customers gives us competitive advantage	2	3	3			3.875
We have focused on key (niche) markets and we have been successful	4	3	1			4.375

(Source: research data 2012)

4.3 Discussion

The findings reveal that all the factors were found to be important to the respondents. Some of the factors were given a higher relative level of importance to the others. Generally the factors clustered together in terms of weighting from the respondents. Portfolio management was fte only category in which all the factors were given the highest level of importance and

relatively these factors were considered to be the most important. Core competencies as a factor **were** given the least relative importance.

The loan portfolio is the major earning asset of a microfinance company. When this asset is properly managed it means that the loans advanced by the institution have a high probability of recovery. Pierce and Robinson (1997) noted that a firm's growth is tied to its survival and profitability. In the microfinance industry profits derive from loan recovery. Growth in the niicrofinance industry is tied to the number of new customers they attract, the number of loans the companies disburse and the loan graduation of the customers. These factors all depend on the availability of financial resources. From the questionnaire the financial resources were dealt with under the sections of company resources, portfolio management and business growth and profitability. The availability and proper management of financial resources enables an organization meet its financial obligations such as remuneration and paying any debts. These resources also enable the microfinance institution to disburse loans and ensure liquidity, Proper management of these resources will enable the microfinance institution adhere to the minimum ratios set by the Central bank in the Microfinance Act (2002), and also have surplus to set aside as retained earnings and set some aside for growth.

Business growth and profitability is come aboui as a lesult of proper management of financial resources. In the microfinance industry financial resources grow through recovery of loans with the interest charged being the profit. The respondents identified the annual growth of the loan portfolio as an important factor in business growth and profitability. The findings show that respondents also recognize the importance of the contribution of other non core products to the growth of the business and profitability. The findings reveal that business growth, increase in market share and profitability are very important in the microfinance industry Pierce and Robinson (1997) suggest that a firm's growth is tied to its survival and profitability. The survival a microfinance institution is dependent on prudent management of its portfolio and other financial resources.

From the findings the non financial aspects were given lower relative importance than the financial aspects of the questionnaire. Respondents felt that factors such as uniqueness of Serviee and product in the industry and experience in the industry were of lower importance than olher factors. This contributed to the low relative weight core competencies were given by the resPondents .The core competencies were regarded as the least important key success factor

As a group of factors the marketing strategies had two outlying factors. These were the factor of customer feedback which was given the highest possible score and the factor of company advertising which was given the lowest score in this group of factors. The respondents felt that advertising is not the most important factor in marketing. This could mean that the microfinance industry generally avoids mass media for promotion, this means that the resources that are used in marketing are a small percentage of revenues the media that is used in the industry is more labour intensive . However the limited marketing that the microfinance use is shown by the study to be quite important in building of brands and fostering a customer loyalty.

The findings of the research show that the respondents feel that the most important factor towards the success in the microfinance industry is financial resources. In the study all the factors which involved the use , acquisition and retention of financial resources were given higher relative weight. The respondents felt that the health of their portfolio would determine whether the company could be a success or a failure in the industry.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5 1 introduction

This chapter presents a summary of the research findings, conclusion and recommendations of the study to determine the key success factors in the microfinance industry in Mombasa. Finally, limitations of the study, suggestions for further research and recommendations are discussed

5.2 Summary of Findings

This study has established that there are several Key success factors in the microfinance industry in Mombasa. These factors have been identifies by the respondents in the findings tabulated in Chapter Four above. The respondents gave all the questions in the questionnaire responses whose weight ranges from fairly important to highly important.

It is clear from the findings that corc compctcncics, portfolio planning, marketing strategies, resources, non financial services, customer and brand loyalty, business growth and profitability and sustainable competitive advantage are seen by the respondents as having high importance.

It is clear from the findings that there are some factors which they give lower weight compared to others. The respondents gave low relative weight to provision of unique service, and the length of time the company has been providing Microfinance services. The respondents also gave a high relative importance to Non financial services given to their clients. This shows that Microfinance companies try to add value to their services with these services. High importance was given to factors such as marketing and customer and brand loyalty.

The respondents gave the high relative importance to the factor of company resources. The ability of the institutions to provide remuneration to their employees and ability to lend. The respondents also feel that the perception of the public regarding the financial health of the institution. The findings show that business growth and profitability are highly important to the respondents.

The factor which respondents gave the highest relative importance is the factor of portfolio management. The respondents felt that securing their loans with a reputable insurer, forming loan recovery unit for loan defaulters and strict adherence to a company credit policy are highly important.

.3 Conclusions

The microfinance industry is a fast growing sector of the financial services industry. It is a sector which has huge potential for growth and also numerous challenges. The organizations in this sector have grown the market share in Mombasa and shareholder value by implementing strategies which build upon the key success factors seen in this report.

The microfinance sector is a sector where financial resources are of high importance, as the ability to give loans is important. The financial stability of an institution and access to credit are also important. The importance of credit implies that the company has access to cheaper sources of funds instead of relying on shareholder funds exclusively which can be limited in some instances.

Portfolio management is how the institutions handle their portfolio. The control of defaulting clients is important as nonpayment of loans mean less income to the institution and loss of resources. Aiming for growth in loans also recognize the importance of ensuring that the loans are given strictly according to company policy, and are insured and instances of loan default are minimized.

The marketing strategies of Microfinance institutions in Mombasa use mass media to a very small extent. The respondents feel that the brochures and street signs and posters reach the targeted audience, this strategy ignores the wider reach of a media such as radio. This is a media whose potential the Microfinance industry has not adequately exploited.

Respondents informed the researcher that while their customers showing brand loyalty by staying on as customers for periods of up to 15 years the customers are not exclusive. The respondents told of customers being members of more than one Microfinance institution. This r

risk in institutions profitability as they could give a client a bigger loan instead of the client taking several small loans.

Microfinance institutions are businesses and growth and profits are highly important. **Their** business is primarily giving loans and growth in the number of loans would mean more profits.

5.4 Recommendations

Microfinance institutions in Mombasa need to identify factors which will ensure high growth and profitability while ensuring they provide quality services to their customers. The institutions need to reassess their marketing policy as regards the use of the mass media. The microfinance industry to a large extent has very little differentiation with most institutions giving services which are very similar with minimal differences. To counter these institutions should aim to be unique in service and service delivery. They can do this by further training and capacity building of their staff.

Microfinance industry need to analyse what leads to customers being members of more than one loan institution, they should analyse whether there are groups who are registered in more than one institution and tackle the risk of fraud which could result from this issue. This issue will also require microfinance institutions in Mombasa sharing details of loan defaulters

5.5 Limitations of the study

The first limitation is that this research studied microfinance institutions as a group. The industry has institutions that are of different classes and sizes, there are commercial banks that practice microfinance, deposit taking microfinance institutions regulated by the Central bank and Credit only Microfinance institutions regulated by the Ministry of Finance.

Time was also a constraint in the study. The research was taken within a limited time pr3me within which it was intended to collect data. If more time was allocated more efforts would have been possible to access more data.

5.6 Suggestions for further study

This study can be replicated on a Kenyan level. In this replication the study can divided into the various microfinance institution categories , A further area of study is the formulation and effectiveness of marketing strategies in the Microfinance industry and the viability of using the mass media such as radio in marketing, Another area of study is strategies used by microfinance institutions in portfolio control and management. The researcher can study the strategies microfinance institutions use in managing loan defaults and loan arrear payment arrears.

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APPENDICES

Appendix 1 **Members of AMFI**

Institution	Head office /address	Website
AR Credit Services	P.O BOX 41766 GPO Tel: 2715319 Nairobi	www.aarcredit.com
ADOK TIMO	Tel: 057 2025570 P.O. Box 3650-40100 KISUMU.	www.adoktimo.com
Aga Khan First Microfinance Agency	Tel: 4451349/6/8 P.O BOX 13149-00100, NAIROBI	www.akdn.org
Barclays Bank of Kenya	Microfinance Department P.O. Box 30120-00100 Nairobi. Kenya	www.barclays.com
Biashara Factors Limited	ACK Garden House, 1st Ngong Avenue, Nairobi	www.biasharafactors.com
Bimas	Tel: 068-31645 P.O BOX 2299 EMBU	www.bimaskenva.com
Blue Limited	Chester House, Ground Floor Koinange Street, Nairobi	www.bluelimited.com
Canyon Rural Credit Limited	Tel: 2711475, 2043407, 2725024 P.O Box 46532 - 00100, Nairobi	www.canyonruralcredit.com
Chartis	Tel: 020-3676901/0720854979 P.o	www.chartisinsurance.com

	Insurance	Box 49460-00100, Nairobi.	
'10	CIC Insurance	Tel:2823000 P.O Box 59485-00200, NAIROBI.	www.cic.co.ke
11	Co-operative Bank	TEL: 3276210 P.O BOX 48231-00100, NAIROBI	www.co-opbank.co.ke
12	ECLOF Kenya	Royal Offices, Mogotio Rd., Off. Chiromo Lane, Parklands NAIROBI	www.eclof.ore
13	Elite Microfinance	TeL: 041-5486771 Cell: 0720735514 P.O BOX 2111 MOMBASA	
14	Equity Bank	Tel: 27366620/17 P.O BOX 75104-00200 NAIROBI	www.equitvbank.com
15	Faulu Kenya DTM Limited	Tei :3877290/3 872 i 84/4 P.O BOX 60240-00200 NAIROBI	www.faulukenva.com
16	Fusion Capital Ltd	Tel: 247538/218223	www.fusioncapital.org
	Institution	Head office /address	Website
17	Greenland Fedha Limited	Tel: 020 - 32277000 P.O Box 30213 - 00100, Nairobi	agathukufolktdateas.com
18	Jamii Bora Bank	Tel: 2034514/3/2/2034543 0722-937516/0733691564 P.O BOX 2704-00202 NAIROBI	www.iamiibora.org
19	Jitegemea Credit Scheme	Tel: 535866/552169 P.O BOX 46514, NAIROBI	
20	Jitegemee Trust	Tel: 3874693/3872998 P.O BOX 21768-00505 NAIROBI	
21	Juhudi Kilimo	Tel: 020 3906000	www.krepbank.com

	Company Limited	P.O Box 10528 - 00100, Nairobi Kenya	
22	K-rep Bank Ltd	Tel 3871511 P.O BOX 25363-00603 NAIROBI	www.krepbank.com
23	K-rep Development Agency	Tel 4343495/4343493 P.O BOX 39312 NAIROBI	www.krepbank.com
24	KADET	Tel: 2731954/87 P.O BOX 1676-00200 NAIROBI	www.kadet.co.ke
25	Kenya Entrepreneur Empowerment Foundation (KEEF)	Tel: 020 3535617 P.O Box 648, Kiambu	www.keefkenva.org
26	Kenya Post Office Savings Bank	Tel 229551-6 P.O BOX 30311-00100 NAIROBI.	www.postbank.co.ke
27	Kenya Women Finance Trust	Tel 2712903/2712823 P.O BOX 55919 NAIROBI	www.kwft.org
28	Kilimo Faida	Tel: 254 20 2062361 P.O Box 10144-00100 NAIROBI	www.orioneastafrica.co.ke
29	Mega Microfinance Limited	Tel: 020 2212917 P.O Box 46558 - 00100 Nairobi	info(a),megamicrofinance.co.ke
30	MESPT	Tel: 020 - 3746764 P.O Box 187 -00606 Nairobi	www.mespt.org
31	Micro Africa Limited	Tel: 2727373 P.O BOX 52926 NAIROBI	http://microafricagroup.com/
32	Microensure Advisory Services	Tel: 020-2221074 P.O Box 13383 - 00100, Nairobi	kate.waiganio(a),microensure.com
33	Molyn Credit	Tel: 020 -310726	www.molvn.co.ke

	Limited	Cell: 0715 172622 / 0735 461781 P.O Box 10144 - 00100, Nairobi	
	Institution	Head office /address	Website
34	Oikocredit	P. O. Box 30328-00100 Nairobi, Kenya	www.oikocredit.org
35	One Africa Capital Limited	Tel: 254 726 376 293 P.O Box 74093 - 00200 Nairobi	oneafrica.microfin(a>,vahoo.co.uk
36	Opportunity International	Geomaps Centre, Matumbato Rd. Upperhill Nairobi	www.opportunitv.ors
37	Pamoja Women Development Programme	Tel: 066-22205 P.O Box 2472 - 00100 Kiambu	www.pawdep.org
38	Rafiki Deposit Taking Microfinance Ltd	Tel: 020-2774000 P.O BOX 66049 - 00800 Nairobi	info(a>chasebank.co.ke
39	Remu DTM Limited	Tel: 020 2214483 P.O Box 20833 - 00100, Nairobi	lvdia.kibaara(S)remultd.co.ke
40	Renewable Energy Technology Assistance Programme (RETAP)	Mobile: 0722 520031 / 020 354592 Tel: 020 3002344/2033867/ 4454306 P.O Box 28201 - 00200, Nairobi	www.retap-africa.org
41	Rupia Limited	Tel: 020 -2251389/2229178 P.O Box 2987 - 00200, Nairobi	
42	Select	Tel: 254 20 2735229	info(2>selectafrica.net

	Management Services Limited	P.O Box 27639 - 00506, Nairobi.	
43	SIS DO	Tel :3870280 P.O BOX 76622-00508 NAIROBI	www.sisdo.org
44	SMEP DTM Limited	Tel:3870162/3861927 P.O BOX 64063 NAIROBI	www.smep.co.ke
45	Swiss Contact	P.o Box 47996,00100, Nairobi	www.swisscontact.co.ke
46	Taifa Option Microfinance	Tel: 067-5855169 P.O Box 727 - Ruiru Kenya	taifaoption(a}vahoo.com
47	U & I Microfinance Limited	Tel: 020-2367388/0713 1 12791 P.O Box 15825 - 00100, Nairobi	info(a>uni-microfinance.co.ke
48	Yehu Microfinance Trust	Tel:+ 254-41-2492589/98 P.O Box 82120-80100 Mombasa,	yehumfi(a)africaonline.co.ke

Source:adapted from /www.amfikenva.com/pages.php?p=3

Appendix 2 AMFI members operating in Mombasa

1. Aga Khan First Microfinance Agency
2. Barclays Bank of Kenya Limited
3. Chartis Insurance Limited
4. Cfc Insurance Limited
5. Co-operative Bank of Kenya Limited
6. Elite Microfinance Limited
7. Equity Bank
8. Faulu Kenya DTM Limited
9. Jamii Bora Bank
10. K-Rep Bank Ltd
11. Kadet
12. Kenya Post Office Savings Bank
13. Kenya Women Finance Trust
14. Rafiki Deposit Taking Microfinance Ltd
15. SMEP DTM Limited
16. Yehu Microfinance Trust

Source: adapted from/www.amfikenva.com/pages.php?p=3

Appendix 3 Introductory Letter

Thoya N. Kahaso
University of Nairobi
School of Business
C/O MBA Office
P. 0. Box 30197
NAIROBI
July 2012

Dear Respondent,

RE: COLLECTION OF RESEARCH DATA

I am a postgraduate student at the University of Nairobi, in the School of Business. In order to fulfill the Master of Business Administration, MBA, degree requirement, I am undertaking a management research project on 'The **Key Success Factors Microfinance Industry in Mombasa".**

You have been selected to form part of this study. This is to humbly request you to assist me collect the data by being available for a personal interview or by filing out the accompanying questionnaire, which I will collect from your premises.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. A copy of the final paper will be availed to you upon request.
Your co-operation will be highly appreciated.
Yours faithfully,

THOYA N. KAHASO	**MR JEREMIAH KAGVYE**
MBA STUDENT	LECTURER / SUPERVISOR
UNIVERSITY OF NAIROBI	UNIVERSITY OF NAIROBI

Appendix 4 Research Questionnaire

THE KEY SUCCESS FACTORS FOR MICROFINANCE INDUSTRY IN MOMBASA

PART I General Information

1.Your Job Title

2. Name of your Company

3. Using the categories below, please indicate the age bracket in which your company falls. (Please tick one)

Less than 10 years ( )	11-20 years ( )
21-30 years ( )	31-50years ( )
More than 50 years ( )	

4. Using the categories below, please indicate the ownership of your company (Please tick one)

Foreign owned ( )	Locally owned ( )

Hybrid of local and foreign ownership ( )

5. Using the categories below, please indicate the number of staff you employ in the Microfinance function in Mombasa

(Please tick one)

Less than 10 ( )	Between 11-20 ( )
Between 21 - 30 ( )	More than 30 ( )

6. Services offered : i)

ii)

iii)

PART III: Key Success Factors

Please indicate the extent to which the following factors are considered important or done by your organization to some extent and contributes to your organization's success as well as to your customers, on a scale of 1 - 5; where,

5 is - Highly important

4 is - Important

3 is - Fairly important

2 is - Of Little importance

1 is - Not important at all

No	Key Success Factor	5	4	3	2	1
	Core competencies					
1	You have unique capabilities as a MFI					
2	Your Credit and Loan officers have unique skills that are valued by customers					
3	You offer unique services to your customers					
4	How long you have been in business as a MFI contributes to your success					
	Market Strategies					
5	Company does Portfolio planning					
6	Company seeks and gets regular feedback from customers					
7	The company participates in trade fairs (shows)					
8	The firm advertises					
10	Credit staff monitor and report competitor activities					
11	Customers are categorised according to loan size and borrowing patterns					
	Company Resources					
12	Employee empowerment through training and remuneration to enhance service delivery					
13	Company Perceived as financially stable					
14	Company has access to credit facilities					
15	You are able to extend credit to your major customers					
	Non financial Service					
16	Advising, customers on the introduction of new products and services.					
17	Training of new customers					

No	Key Success Factor	5	4	3	2	1
19	Training existing customers					
20	Business advice to customers					
21	Capacity building of credit staff to offer non financial services					
	Portfolio management					
22	Loans offered secured with a reputable insurer					
23	Loan recovery unit for defaulters					
	Strict adherence to Credit policy of institution					
	Customer and Brand Loyalty					
25	Your customers exhibit strong brand loyalty					
26	The firm has symbols to represent its unique identify					
27	MFI carries out brand building activities					
28	The brand you sell is closely associated with you					
29	Does the brand represent a value proposition to customers					
30	The brand is distinctive					
31	All company facilities and vehicles carry the firms' brand					
	Business Growth and Profitability					
32	It is important that Loan portfolio increases annually					
3j	High market share is important to us					
34	We expect the market share to increase					
35	Business profitability is important to us					
36	The contribution of the other products to sales is high					
	Sustainable Competitive Advantage					
37	Customers consider you as the market leader in the MFI sector					
38	This position has given you an advantage over your competitors					
39	Low cost of service is a source of competitive advantage					
40	Unique service offered to customers gives us competitive advantage					
41	We have focused on key (niche) markets and we have been successful					

42. Please indicate any other factors you consider to be the most important and key to your success as a MFI, apart from the ones highlighted above,

(i)

(ii)

(iii)

(iv)

Thank you very much for your cooperation.

Appendix 5 Operational Dimensions of Key Success Factors
Dimensions required to identify Key Success Factors.

Key Success Factor	**Expanded definition**	**Relevant issues**
Core competences	Unique capabilities, skills, facilities, tools, experience of an MFI	What unique capabilities do you have as a MFI? What skills do your staffs have? What unique services do you offer your customers? How long have you been in business as a MFI?
Portfolio Planning	Preparation of portfolio plans by month, by quarter, annually	Company does portfolio planning
Market Research	Getting feedback from your customers	Company seeks and gets regular feedback from customers
	Gathering competitive information	Credit staff monitor and report competitor activities
Market Segmentation	Categorising your markets by loan type, loan size	Customers are categorised according to loan size and borrowing patterns
Promotions		Firm participates in trade shows
	Advertising and sales promotion campaigns	Firm advertises in the press and magazines
Resources t	Availability of capital, access to credit, skilled labour, specialized equipment, access to service information, facilities, vehicles	- Availability of trained service staff - Attracting and retaining skilled staff in both credit and back off and support functions - Employee empowerment through training and remuneration to enhance service delivery - Company Perceived as financially stable
Key Success Factor	**Expanded definition**	**Relevant issues**

Non financial service	Provision of customer training workshops and site visits to borrowers	Are there scheduled training programs for new and existing customers? Does the firm have an adequate number of qualified training staff? Does the MFI carry out customer training? Do field credit staffs respond to customer non financial requests?
Customer and Brand Loyalty	Customers preference for a MFI	Do your customers exhibit strong brand loyalty? Does the experience of the MFI influence customer loyalty? What factors influence customer loyalty to your MFI? Does the MFI have symbols to represent its identify
Sustainable Competitive Advantage	Ability to perform better than competitors Key sources of competitive advantage being low cost, differentiation and focus on market niches •	What is your estimated market share for MFI in Mombasa? Do you or your customers consider you as the market leader in the MFI sector? Has this position given you an advantage over your competitors What factors have contributed to your market share? What do you perceive as giving you competitive advantage among these? - low cost of service - Unique service offered to customers? - Focus on some unique market areas (niches)