

**COMPETITIVE STRATEGIES ADOPTED BY MICROFINANCE
INSTITUTIONS IN KENYA**

BY

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DECLARATION

This MBA research project is my original work and has not been presented for academic purposes in any other university.

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This research project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

I dedicate this project to my family for their love, care, faithful prayers and constant encouragement throughout the programme. Thank you all for walking with me every step of this long journey. You have always been an invaluable source of strength and I thank God so much for you.

ABSTRACT

The choice of a competitive strategy is critical for the survival and success of any organization. Superior performance can be achieved in a competitive industry through pursuit of the right strategies. The MFI industry has witnessed a rise in the number of MFIs which are all competing for the same market. Following the changes in the environment, MFIs have been forced to come up with competitive strategies hence this study sought to establish the competitive strategies employed by microfinance institutions in Kenya. Generic strategies formed the basis upon which the objective was investigated. For the above objective to be achieved a cross-sectional survey research design was used and primary data was collected. Semi-structured questionnaires were administered mainly by “drop and pick later” method. The population of interest in this study included all the 53 members of the Association of Microfinance Institutions of Kenya (AMFI) as at 31st December 2011. The respondents were mainly the C.E.Os, Operations managers and other senior managers of the MFIs. Descriptive statistics was used to analyze the data which confirmed the adoption of various competitive strategies by MFIs in Kenya. The research findings established that the competition in the MF sector is high. It also confirmed that MFIs in Kenya applied generic strategies. All the competitive strategies investigated namely; cost leadership, differentiation, focus, operational excellence, customer intimacy and product leadership have all been adopted to a great extent. In the light of the findings, the researcher recommends that microfinance institutions have to keep differentiating their products and services from those of other MFIs to achieve competitive advantage.

TABLE OF CONTENTS

Declaration.....	ii
Acknowledgements.....	iii
Dedication.....	iv
Abstract.....	v
List of Tables.....	ix
List of Abbreviations.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Competitive Strategies.....	2
1.1.2 Microfinance Institutions in Kenya.....	4
1.2 Research Problem.....	6
1.3 Research Objective.....	8
1.4 Value of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction.....	10
2.2 The Concept of Strategy.....	10

2.3 Competitive Strategies.....	12
2.4 Generic Strategies.....	14
2.5 Factors that influence the choice of strategy.....	19
CHAPTER THREE: RESEARCH METHODOLOGY.....	21
3.1 Introduction.....	21
3.2 Research Design.....	21
3.3 Population of the Study.....	21
3.4 Data Collection.....	22
3.5 Data Analysis.....	22
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....	24
4.1 Introduction.....	24
4.2 General Information.....	24
4.2.1 Designation of Respondents.....	25
4.2.2 Number of Branches.....	25
4.2.3 Geographical Spread.....	26
4.2.4 Nature of Ownership.....	27
4.2.5 Years of Existence.....	28

4.2.6 Nature of MFI Business.....	28
4.3 Nature of Competition.....	29
4.4 Competitive Strategies adopted by MFIs.....	30
4.4.1 Cost Leadership Strategy.....	31
4.4.2 Differentiation Strategy.....	32
4.4.3 Focus Strategy.....	34
4.4.4 Operational Excellence Strategy.....	35
4.4.5 Customer Intimacy Strategy.....	37
4.4.6 Product Leadership Strategy.....	38
4.5 Other Strategies Employed by MFIs.....	39
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS...	41
5.1 Introduction.....	41
5.2 Summary of Findings.....	41
5.3 Conclusion.....	43
5.4 Recommendations	44
5.5 Suggestions for Further Study.....	45
5.6 Implications on Policy and Practice.....	45

5.7 Limitations of the Study.....	46
REFERENCES.....	48
APPENDICES.....	xii
Appendix I: Questionnaire.....	xii
Appendix II: List of Microfinance Institutions in Kenya.....	xvii
Appendix III: Letter of Authorization to collect data.....	xix

LIST OF TABLES

Table 4.1	Designation of Respondents.....	24
Table 4.2	Number of Branches.....	25
Table 4.3	Geographical spread of MFIs.....	25
Table 4.4	Nature of MFI Ownership.....	26
Table 4.5	Years of Existence.....	27
Table 4.6	Nature of MFI Business.....	28
Table 4.7	Nature of Competition in the MFI sector.....	29
Table 4.8	Cost Leadership Strategy	30
Table 4.9	Differentiation Strategy.....	32
Table 4.10	Focus Strategy	33
Table 4.11	Operational Excellence Strategy.....	35
Table 4.12	Customer Intimacy Strategy.....	36
Table 4.13	Product Leadership Strategy.....	37
Table 4.14	Other Strategies Employed by MFIs.....	38

LIST OF ABBREVIATIONS AND ACRONYMS

AMFI	-	Association of Microfinance Institutions of Kenya
CEO	-	Chief Executive Officer
DTM	-	Deposit Taking Microfinance
GDP	-	Gross Domestic Product
IT	-	Information Technology
KWFT	-	Kenya Women's Finance Trust
MF	-	Microfinance
MFIs	-	Microfinance Institutions
NGO	-	Non Governmental Organization
ROSCAs	-	Rotating Savings and Credit Associations
SMEs	-	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In this era of ever changing global economy with every organization striving to achieve a competitive advantage, the changes present both opportunities and challenges. The rate, direction and magnitude of this change must therefore be the concern of every top executive entrusted with the running of any organization. Johnson and Scholes (2003) notes that organizations must find ways of operating by developing new competencies as the old advantage and competencies gained are quickly eroded due to changes in both internal and external environment. To ensure survival and success, organizations need to develop capability and capacity to manage threats and exploit emerging opportunities promptly. This requires formulation of competitive strategies that match the capabilities and environmental requirements. One of the challenges presented by a dynamic environment is increased competition. Competition is indeed a very complex phenomenon that is manifested not only in other industry payers, but also in form of customers, suppliers, potential entrants and substitute products. It is therefore necessary for a firm to understand the underlying sources of competitive pressure in its industry in order to formulate appropriate strategies to respond to competitive forces (Porter, 1979).

The concept of microfinance is not new. In the last three to four decades, many developing countries have seen their financial system undergo some transformation and innovativeness due to the emergence of Microfinance Institutions (MFIs). According to Ledgerwood (1999) the term microfinance refers to the provision of financial services to

low income clients, including the self-employed. She further explains that microfinance institutions generally provide services that include credit, savings, insurance and money transfer services. MFIs are primarily established to provide business and consumption credit or bring financial services to poor and vulnerable groups in society with the ultimate goal of improving living standards or eradicating poverty. The microfinance organizations operating in Kenya are characterized by limited resources, therefore it is very important to focus on gaining competitive advantage to enable them respond to and compete effectively in the market. They need to identify their core competences and concentrate on areas that give them a lead over competitors.

1.1.1 Competitive Strategies

Competitive strategy has never been more important to the success of any organization in today's business environment. It does not matter what type of business one is in or whether you are small, big or just starting out, a company cannot survive without an adequate and focused strategy to beat the competition. Forming a successful business strategy involves creating a first-rate competitive strategy. How to succeed in today's rapidly changing competitive environment is a key question for many firms. The business environment is rapidly changing; i.e. markets, customer demands, technologies, global boundaries, products and processes. Different meanings of competitive strategy have been advanced by different scholars. According to Johnson and Scholes (2005) competitive strategy is concerned with the basis on which a business unit might achieve competitive advantage in its market. They stated that an organization can achieve competitive advantage by providing its customers with what they want or need, better or more effectively than competitors.

Porter (1980) defined competitive strategy as the search for a favourable competitive position in an industry. It deals exclusively with management's action plan for competing successfully and providing superior value to customers. Competitive strategy is the core of any firm's success and therefore businesses must develop a plan that addresses ways to compete in their respective markets (Ansoff, 1990). However, some of these strategies are implicit, having evolved over time, rather than explicitly formulated. A company's competitive strategy consists of all the business approaches and initiatives that a firm undertakes to attract customers and fulfill their expectations to withstand competition on pressures and to strengthen its market position. It deals with management action plans for competing successfully and providing superior value to customers. This enables it differentiate or put the company apart from its competitors (Thompson and Strickland, 2003).

Porter's competitive strategies deal with the core issues that many organizations are concerned with, namely efficiency (cost) and product/service quality. Generic strategies were used initially in the early 1980s and seem to be even more popular today. They outline the four strategic options open to organizations that wish to achieve a sustainable competitive advantage. Porter (1980) said that no single competitive strategy is guaranteed to achieve success and even some companies that have successfully implemented one of the Porter's competitive strategies found out that they could not sustain the strategy. A firm that engages in each generic strategy but fails to achieve any of them is 'stuck in the middle'. It possesses no competitive advantage. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiator or focusers will be in better positions to compete in any segment (Porter, 1980). With the

changed competitive conditions facing the firm and its chosen strategy, it is mandatory that firms explore the necessary capabilities required to achieve competitive advantage. This research project did investigate the competitive strategies that MFIs in Kenya have adopted in order to cope with the ever increasing competition.

1.1.2 Microfinance Institutions in Kenya

Microfinance was originally associated with innovations such as the Grameen Bank in Bangladesh which pioneered by lending to members of groups. Group members provide security and due to peer pressure, members encourage each other to ensure prompt payment of loans (Chambers, 2003). However, the term has acquired a broader definition and covers any financial service reaching those excluded from the formal banking sector and involving small transactions (Christen, 2001). Microfinance is associated with Microfinance Institutions (MFIs) which are specialized institutions registered under various Acts to provide alternative financial services to the small and micro enterprises (SMEs) clientele. MFIs are registered in various forms of organizations such as NGOs, cooperative societies and commercial banks (Ledgerwood, 2002).

The idea of micro credit can be traced back to before independence in Kenya. The colonial government did not provide credit facilities to the Africans and hence informal groups such as merry go round were formed within the communities in rural areas and clan levels and therefore microfinance is not a recent phenomenon in Kenya. This is supported by the fact that some of the current informal sector practices such as money lending, Rotating Savings and Credit Associations (ROSCAs), date back to ancient societies in Kenya and elsewhere (Dondo, 2001).

The Kenyan microfinance sector began in the late 1960s with a few NGOs that set up pilot programs providing donor funded credit services. Some of these organizations have evolved over time to become commercialized, self-sustaining and hugely profitable institutions. Microfinance is rapidly becoming Kenya's most accessible and affordable financial service. From the years 1970s to date, there has been high increase and growth of microfinance institutions (MFIs) in Kenya. Many have grown fast and their levels of efficiency greatly increased until some have been converted into leading banks in Kenya for example the Equity bank and the Family bank among others. In Kenya, the microfinance market penetration rate is estimated at around 10.4 percent and loan portfolio by end of 1999 at around KShs 2.3 billion (Aleke Dondo, 2001).

The Kenyan microfinance marketplace has evolved at a very rapid pace with new entrants, new products and practice, a rise in movement between multiple memberships of financial institutions; and a more demanding and discerning clientele. This has significant implications for the many and various financial service providers operating in this increasingly competitive microfinance market (Dondo, 2001). This increasingly competitive and varied marketplace is beginning to be reflected in a growing number of players. This represents an important change, since until the early 1990s most MFIs did not have to worry about competition. This period of low competition allowed MFIs the freedom to focus single-mindedly on making the breakthroughs in methodology and management necessary for growth and sustainability. However, recent years have seen competition among MFIs growing in leaps and bounds in Kenya. Moreover, donors have questioned the need for continued subsidies, resulting in the recent focus on 'institutional sustainability' in the MF sector.

The industry until 2008 existed in an amorphous form which was not very well defined. Almost anyone who felt they could offer microfinance services just joined in due to lack of regulation and monitoring. All these players contributed in shaping the competition within the industry as they targeted the same clientele. The Microfinance Act of 2008 sought to streamline the operations of the MFIs in Kenya. It addressed licensing provision, minimum capital requirements, minimum liquid assets, supervision by Central bank and the limit on loan and credit facilities. It also sought to protect depositors by requiring the deposit-taking MFIs to contribute to the deposit protection fund. The Act sets out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Association of Micro Finance institutions (AMFI) currently has 53 member institutions comprising of NGOs, companies, trusts, societies and commercial banks (www.amfikenya.com, 2011).

1.2 Research Problem

One of the environmental influences to a business is competition. As such, every organization needs a competitive strategy. Increased competition threatens the attractiveness of an industry by reducing the profitability of players. Competition exerts pressure on firms to be proactive and to formulate successful competitive strategies to deal with threats and harness opportunities in the environment. Firms that do not respond effectively to increased competition are not likely to succeed in business (Porter, 1996). Firms in dynamic industries respond to competitive forces in different ways. While some may resort to improving current markets and products diversification, others employ techniques that ensure operations effectiveness. However, much as operational effectiveness is necessary, it is not sufficient in achieving sustainable competitive

advantage. The focus is on serving the future needs of the firm's customers using their existing strength. Ansoff (1990) suggests that for a firm to optimize its competitiveness and profitability, it has to match its strategy and supporting capability with the environment.

Most microfinance institutions in Kenya play a significant role in the growth of the Kenyan economy. As the economy continues to grow, there is an obvious need to expend business transactions to all categories of the people living in Kenya. Until the 1990s, most MFIs in Kenya did not have to worry about competition. This period of low competition was essential for the development of microfinance as it allowed MFIs to focus single-mindedly on making the breakthroughs in methodology and management necessary to reach sustainability. These breakthroughs have now brought MFIs to the threshold of competition precipitated by the growth of the industry. MFIs are thus increasingly experiencing competition and it is against this background that this research sought to determine the various competitive strategies that MFIs employ to compete effectively. Some strategic issues that MFIs have to deal with include; addressing the needs of clients, cost efficiency in service delivery, alternative and improved choice of products and services and financial self sufficiency.

Some studies have been done on competitive strategies. Jowi (2006) focused on competitive strategies employed by sugar manufacturing firms in Kenya. He concluded that sugar manufacturing companies in Kenya face stiff competition from cheap imports from neighbouring countries and that they need to respond to this competition to retain market share. Nyaga (2007) evaluated the nature of competition within microfinance industry in Kenya. He used Porter's Five Forces model to evaluate the industry. This

study may not be generalized for the microfinance industry because the parameters were different. Strategy is also sensitive to time and contextual factors (Pearce & Robinson, 2001). Githinji (2009) studied the factors that influence sustainability of MFIs in Kenya. The main focus in his research was the sources of capital and it was against the background that donor support to microfinance sector is dwindling by the day. In his research, Mulandi (2010) explored the factors that determine profitability of MFIs in Kenya where he concluded that factors such as information technology, capital size, size of credit portfolio among others affect profitability of MFIs. Gichura (2011) researched on the determinants of financial performance of MFIs in Kenya where the focus of performance was financial measures. Onyoro (2011) looked at the competitive strategies adopted by commercial banks in Kenya concluding that commercial banks employ low cost and price differentiation strategies. Taking into account the above studies and the dynamism and turbulence in the microfinance sector, the emphasis of this study was to find out the competitive strategies that MFIs in Kenya employ to gain sustainable competitive advantage. Therefore the question that arose against this background is: What are the competitive strategies that microfinance institutions use to achieve competitive advantage?

1.3 Research Objective

The objective of the study was: To establish the competitive strategies adopted by microfinance institutions in Kenya.

1.4 Value of the Study

This study hopes to add into the body of knowledge of competitive advantage by exploring the various competitive strategies. Microfinance institutions will use the findings in drafting strategies on how to operate in a competitive and turbulent Kenyan market. It will also help the managers to understand better the strategic moves mostly applied by competitors to maintain their market share in Kenya. With this knowledge, they will be in a better position to steer the businesses to efficiency and effective operations. The study will determine whether the application of competitive strategies is adequate to enable an institution create a defensible position in the long run and outperform its competitors. Investors will also use the information to make decisions regarding investments in the industry.

The findings are useful to the government and other policy makers as it will shed more light as to the state of competition within the microfinance industry. It will also enable the regulator to recommend the appropriate policies. The Association of Microfinance Institutions of Kenya (AMFI) will be able to use the results of the study in developing appropriate capacity building and support programs.

This study may also be helpful to academicians who will use the same as a source of reference. The findings of this study can be compared with strategic management practices in other sectors to draw conclusions on various ways a company can respond to competitive forces in the environment and achieve superior performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of the relevant literature based on the thematic areas namely the concept of strategy and competitive strategies. It also covers the factors that influence the choice of competitive strategies. This study was anchored on generic strategies and the best known categorization of generic strategies was put forward by Michael Porter in his 1980 book, *Competitive Strategy*. However, review was also provided for other generic strategies as put forward by Cliff Bowman and Treacy Wiersema.

2.2 The Concept of Strategy

The concept of strategy is believed to have originated from the ancient Greeks and that the word strategy comes from the Greek word 'stratego', meaning to plan the destruction of ones enemies through the effective use of resources (Burnes, 1999). However, the Greeks developed the concept purely in relation to the successful pursuit of victory in war. The concept remained a military one until the nineteenth century when it began to be applied to business world. Chandler (1962) put forward the view that the emergence of strategy in civilian organizational life resulted from an awareness of the opportunities and needs created by changing population, income and technology – to exploit existing or expanding resources more profitably.

In the 1950s, when response to environmental discontinuities became important, the concept of strategy entered business vocabulary (Ansoff 1990). Thompson and Strickland

(2003) argued that strategy is about winning. They perceived strategy as a combination of competitive moves and business approaches that managers employ to satisfy customers, compete successfully and achieve organizational vision and objectives. Strategy is a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization. Strategy is a set of decision making rules for guidance of organizational behavior (Ansoff and McDonnell, 1990). The implication of this view is that an organization is supposed to interact with the environment according to some predetermined pattern. According to Hamel and Prahalad, (1989), the essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today. The concept of strategy defines the long-term direction of the organization.

According to Grant (2000), a successful strategy is consistent with organization's goals and values, external environment, resources and capabilities, and organizational systems. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance. Thus, when there are changes in the environment, the organization's capabilities and strategy would have to be changed in order to ensure a continued strategic fit. Most successful strategies give an organization some property that is unique or at least distinctive and the means for renewing its competitive advantage as the environment changes (Haberberg & Rieple, 2008). As the environment changes, with new technologies emerging, customer tastes evolving and new competitive threats appearing, organizations must change as well. If they rely upon established areas of distinctiveness in their products, value chains

and resources, they risk being left with products and services that nobody thinks are valuable, or being outflanked by competitors.

2.3 Competitive Strategies

With changing business environment, firms are finding it increasingly difficult to find industry environments in which there are good enough conditions that allow a rate of return above the competitive level. Competitive strategies provide a framework for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant, 1998). Johnson and Scholes (2002), defines competitive strategy as the bases on which a business unit might achieve competitive advantage in its market. Organizations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors; and in ways which their competitors find difficult to imitate.

A company's competitive strategy consists of all the business approaches and initiatives that a firm undertakes to attract customers and fulfill their expectations to withstand competition on pressures and to strengthen its market position. It deals with management action plans for competing successfully and providing superior value to customers. This enables it differentiate or put the company apart from its competitors (Thompson and Strickland, 2008). Competitive strategy is concerned with how a firm competes in a given industry (Grant, 1998).

Porter (1980) noted that competitive advantage being the product of competitive strategies is the ability of the firm to outperform rivals on the primary performance goal

of profitability. The essence of the strategy is relating a company to its environment (Porter, 1985). He argued further that strategy only make sense if the markets to which it relates are known. He further argued that the essence of business is to create competitive advantage that comes in a number of ways such as low-cost production or product differentiation. Michael Porter's competitive strategies deal with the core issues that many organizations are concerned with, namely efficiency (cost) and product/service quality. Porter (1980) in his book entitled 'Competitive Strategy: Techniques for analyzing industries and competitors, indicated that the essence of formulating competitive strategy is to relate a company to its environment. He further argues that there are three generic strategies that firms can employ. Porter called his strategies generic because they are not organization or industry dependent. They can be applied to a firm in any industry.

Firms in dynamic industries respond to competitive forces in different ways. While some may resort to improving current markets and products, diversification, divestiture, others employ techniques that ensure operational effectiveness. However, much as operational effectiveness is necessary, it is not sufficient in achieving sustainable competitive advantage. In order to achieve this, competitive strategy needs to focus on unique activities (Porter, 1991). Competitive strategy will ultimately aim at changing the rules of competition to favour a firm (Wheelen and Hunger, 1995). Competitive strategy is concerned with competitors and the basis of competition and Porter's contribution to our understanding of the competitive environment of the firm has wide implications for many organizations in both the private and public sectors. Competitive strategy is a key area of

strategy and must therefore grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness.

2.4 Generic Strategies

The aim of any firm should be to develop a distinctive competence that is greater than its competitors. Many planning experts believe that the general philosophy of doing business declared by the firm in the mission statement must be translated into a holistic statement of the firm's strategic orientation before it can be further defined in terms of a specific long-term strategy. In other words, a long-term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. The popular term for this core idea is generic strategy. Generic strategy is a core idea about how a firm can best compete in the market place (Pearce & Robinson, 2007).

The best known categorization of generic strategies was put forward by Michael Porter in his 1980 book, *Competitive Strategy*. Cliff Bowman's attempted to build and improve on Porter's framework. Both Porter's and Bowman's frameworks make use of three dimensions: product price, the breadth of the target customer segment and the degree of value added to the consumer. Treacy and Wiersema (1993), on the other hand focus more simply on different ways that firms may attempt to add value.

Michael Porter held that firms can only achieve high returns if their costs are lower than those of competitors' or if they can differentiate their products effectively. He identified three bases for competitive advantage. These are; Cost leadership strategies, Differentiation strategies and Focus strategies. According to Porter (1980), an organization can outperform rivals if it can establish a difference it can preserve and the

essence of strategy is choosing to perform activities differently than rivals do. Competition usually results into competitive rivalry, a phenomenon associated with organizations offering similar products and services aimed at the same customer group.

An overall cost leadership strategy is one in which a firm strives to have the lowest costs in the industry and offers its products and services to a broad market at the lowest prices. Porter (1980) states that characteristics of cost leadership strategy include low level of differentiation, aim for average customer, use of knowledge gained from the past experience and the addition of new products only after the market demands them. Thompson and Strickland (2008) agree with Porter's view on cost leadership strategies and state that this strategy calls for being the low cost producer in an industry for a given level of quality. Firms acquire cost advantages by improving processes efficiencies, accessing lower cost materials, making optimal outsourcing vertical integration decisions or avoiding some costs altogether. However, the risk of cost leadership is that competitors may leapfrog the technology and production capabilities hence eliminating the competitive advantage acquired from cost reduction.

A differentiation strategy is one in which a firm offers products or services with unique features that customers value (Porter, 1980). The value added by the uniqueness commands a premium price. Differentiation strategy calls for development of a product or service that offers unique attributes to the customers. The firm hopes to cover the extra costs by the premium price commanded by the product or service uniqueness. If suppliers increase their prices, the firm may be able to pass along the costs to its customers who cannot find substitute products easily. This is one way of creating a product or service that is perceived as being unique throughout the industry. The emphasis can be on brand

image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to one's industry. This uniqueness should also translate to profit margins that are higher than the industry average. Rothschild (1984) contends that differentiation is often the secret to extending the life cycle of a business and making it more expensive to enter and follow. The risks associated with differentiation strategy include imitation by competitors and changing customer tastes and preferences and hence the shelf life of differentiation strategy is getting shorter and shorter.

Focus strategy, involves a firm concentrating on a narrow customer segment. This means serving the segment more efficiently and effectively than the competitors. It can be further subdivided into cost focus and differentiation focus strategies, depending on whether the firm tries to achieve cost or differentiation advantage in that particular segment (Porter, 1985). Porter stated that the advantages of focus strategy include having power over buyers since the firm may be the only source of supply. Buyers do not have a strong bargaining power giving a firm competitive advantage. Customer loyalty also protects a firm from threat of new entrants and threat of substitute products. The firm adopting focus strategy can easily stay closer to its customers and effectively monitor their needs (Porter, 1980). However, the risks associated with focus strategy include being at the mercy of powerful suppliers since the firm is only able to buy in small quantities. Small volumes also mean higher production costs. These firms do not enjoy lower cost advantages arising from economies of scale. Changes in customer tastes and preferences may lead to disappearance of the market segment. It may also be fairly easy for a broad market cost leader to adopt its products in order to compete directly with

firms pursuing focus strategy. Finally other focuses may be able to carve out segments that they can serve even well.

Porter (1980) argues that his generic strategies are not compatible to one another. A firm that attempts to achieve an advantage on all fronts may achieve no advantage at all. For example if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Therefore according to Porter to be successful over a long term, a firm must select one and only one of the three generic strategies. Otherwise with more than one, a firm risks being “stuck in the middle” and may not achieve competitive advantage. Those firms that succeed with multiple generic strategies do so by creating separate business units for each strategy.

Cliff Bowman places less emphasis than Porter on the difference between broad and narrow scope and analyses a business’ competitive stance along two main dimensions: the prices of its products and the amount of value its customers, existing or potential, perceive that those products give them (Haberberg & Rieple, 2008). A no-frills strategy provides usable, basic products with very few features at a low price. Organizations using a low-price strategy charge less than competitors for similar levels of functionality and service. This makes it a risky and difficult strategy which requires the firm to have lower costs than its competitors, or to be able to block imitation of its prices and survive price wars. It is likely that this strategy will have a short lifespan and will change over time to a stance based either on no frills or on clearer differentiation.

According to Bowman hybrid strategy offers some form of differentiation without demanding premium prices. Firms have made it their business to cut costs in areas that

are not important to the customer through manufacturing competencies so as to be able to afford lower prices while still offering distinctive features. A differentiation strategy in this model involves offerings that are distinctive from those of competitors in ways which are valued by consumers in a broad market segment (Haberberg & Rieple, 2008). This distinguishes it from a focused differentiation strategy which seeks to achieve high prices for a highly specialized product targeted at a narrow customer segment where there are few competitors. Firms following this strategy are likely to have strong competences in areas of particular importance to the customers in that segment and build strong relationships of trust with them.

Strategies involving high prices for low or unexceptional value or standard prices for poorly featured products or services are only likely to be viable for a short period (Haberberg & Rieple, 2008). It is likely that competitors offering better value for money will take market share in the longer term. If one is considering using Bowman's generic strategies in their analysis, he or she needs to be aware that the framework does not appear to have been empirically tested. In other words, there is no evidence that the differences between his various generic strategies are genuinely important in practice – but also no evidence that they are not.

Treacy and Wiersema identified three ways in which a firm may get competitive advantage and these are: operational excellence, customer intimacy and product leadership. Operational excellence involves structuring the value chain so as to be the industry leader on price and convenience. Firms with this strategy go to great length to minimize overheads and eliminate any activities that are not absolutely necessary. Their

culture and belief system emphasize the value of discipline in keeping costs low (Treacy and Wiersema, 1993).

Customer intimacy involves investing time and effort in tailoring products and services very closely to the needs of each individual customer, or customer segment, with a view to building loyalty and relationships. Firms follow this strategy in the expectation of recouping the investment from customers that make repeat purchases and for whom low prices are not the main factor in choosing a supplier. This strategy has become increasingly common in financial services and for firms selling to business customers.

Product leadership involves constantly striving to keep ahead of competition with a stream of new and innovative products. Sony and Apple both pursue this strategy. The three strategies imply different customer choices and value chains. However, Treacy and Wiersema (1993) suggested that firms do better to focus their efforts on mastering one of them and there is limited empirical evidence that supports this contention.

2.5 Factors that Influence the Choice of Strategy

Although managers ideally prefer to formulate decisions through a systematic approach, the concept of bounded rationality would suggest that managers might be forced to make these important decisions by giving consideration to only a limited number of the issues. Often the focus is on external factors, such as financial risk, market attractiveness and competitive advantage, at the expense of internal factors. Current research into how strategic decisions are influenced by the external environment continues to be an area of interest in the literature (Dussauge et al, 2000). The fit between the organization's strategy and external factors is of critical importance in the choice and formulation of a

plan, however, the successful execution of the plan is also contingent on whether the organization can properly implement it.

Many researchers have suggested that ignoring 'internal' factors may significantly impact the chances for successful implementation and ultimately, the success of strategy. For example, Williamson (1991) states superficially that implementation appears an easy task and one that can happily be left to operating management. In strategic management as a whole, implementation is often not treated as thoroughly as it should be. Boman (1985) drew attention to the fact that when the results of strategy are worse than expected, a common reaction is to change the strategy, although many times the failure is due to poor implementation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used to carry out the study. It covers the research design, the target population, data collection method and data analysis techniques that were used.

3.2 Research Design

The research design for this study was a cross-sectional survey. The design was characterized by systematic collection of data from members of a given population through questionnaires which were the appropriate data collection tools. This study explored the competitive strategies employed by microfinance institutions in Kenya.

The survey was important in this kind of study because it allowed for collection of various data from a sizeable population in a highly economic way. It was possible to administer the data collection tools to the respondents in their work stations in a relatively cheaper manner (Mugenda & Mugenda, 2003).

3.3 Population

The population of interest in this study included all the 53 members of the Association of Microfinance Institutions of Kenya (AMFI) as at 31st December 2011 (see Appendix II). AMFI membership ranges from large to small institutions which have diverse legal status ranging from Microfinance banks, Wholesale MFI's, Retail MFI's, development

Institutions and Insurance companies which represent the entire landscape of the Microfinance industry in Kenya.

A census survey was carried out on the entire membership of AMFI in Kenya. A census survey entails collection of data from the entire population of interest hence a more accurate and adequate information more so if the response rate is very high. The challenge is to get a higher response rate.

3.4 Data Collection

The study used primary data and the main tool for data collection was the questionnaire (see Appendix I). The semi-structured questionnaire consisted of both open and close ended questions developed in line with the objectives of the study. The questionnaire targeted senior managers in MFIs such as CEOs and Operations managers whose positions and roles gives them the ability to respond effectively to most of the questions.

The questionnaires were dropped for collection to the selected individuals. In order to improve the response rate, a follow up was done through telephone calls and personal visits to the respective offices. Prior to commencement of data collection, an introduction letter authorizing the data collection was obtained from the School of Business, University of Nairobi.

3.5 Data Analysis

Data was analyzed using descriptive statistics. Data that was collected was mainly quantitative in nature. The Five Point Likert Scale was used to determine the various competitive strategies employed by microfinance institutions in Kenya. Before analyzing,

the questionnaires were checked for completeness. Entries were checked for consistency and coding was done thereafter. The findings of the study were tabulated and analyzed by employing statistics in the form of tables, frequency distribution, percentages and mean scores.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study whose objective was to establish the competitive strategies employed by MFIs in Kenya. The questionnaires were delivered to 53 members of the Association of Microfinance Institutions of Kenya – AMFI (see Appendix II). However, 30 of them responded thus giving a response rate of 57%. This was considered adequate for the objective of this study.

In this chapter, the analyzed data is presented in form of tables, frequencies, percentages, mean scores and standard deviations. Findings have been presented in the following order. First the general information on MFIs in Kenya will be covered to be followed by information relating to the competitive strategies adopted by the said MFIs.

4.2 General Information

This section presents an analysis of general information of the 30 microfinance institutions that responded. It provides findings on the designation of the respondents, size of each MFI in terms of number of branches, their geographical spread in Kenya, nature of ownership, how many years of existence, the nature of business or categories of customers served and the nature of competition. It is a section that provides the background information on the population under study which is often referred to as the organizational profile or bio-data.

4.2.1 Designation of Respondents

The respondents in this study were as follows; CEOs, Operations managers, Heads of departments and senior managers. The findings on the designation of the respondents are given in table 4.1 below.

Table 4.1: Designation of respondents

Designation	Frequency	Percentage (%)
Director (CEO)	3	10%
Senior Manager	4	30%
Head of department	9	13.3%
Operations Manager	14	46.7%
Total	30	100%

Source: Survey data

From the above table, it will be noted that the majority of the respondents (46.7%) were the Operations managers. 30% of the respondents were the senior managers while 13.3% were the Heads of departments. The Directors/CEOs who responded were only 10% and this was the least. This implies that the easily accessible respondents were the Operations managers and the senior managers.

4.2.2 Number of Branches

The study aimed at assessing the branch network of the thirty MFIs under review. Findings are presented in table 4.2 below.

Table 4.2: Number of branches

Size	Frequency	Percentage (%)
1 branch	9	30%
2 - 5 branches	8	26.6%
6 - 10 branches	2	6.7%
Over 10 branches	11	36.7%
Total	30	100%

Source: Survey data

From the table above it is evident that the majority of MFIs that participated in the study have more than 10 branches (36.7%). Those without branches represent 30%. Those with 2-5 branches represent 26.6% while those with 6-10 branches are the least with 6.7%. This implies that the majority of those surveyed had more than one branch. The majority had branches both in Nairobi and outside.

4.2.3 Geographical Spread

The assessment of the geographical spread of the thirty MFIs under review is presented in table 4.3 below.

Table 4.3: Geographical spread

Situation	Frequency	Percentage (%)
In Nairobi only	8	26.6%
Outside Nairobi	2	6.7%
Nairobi and other places	20	66.7%
Total	30	100%

Source: Survey data

From the above table, it will be noted that the majority (66.7%) of MFIs studied are geographically spread. They are in Nairobi but also have branches outside of Nairobi. Those that have not expanded outside of Nairobi are 26.6%. A few (6.7%) have their businesses situated outside Nairobi. This implies that the majority of MFIs are geographically spread in Nairobi and even those that have spread to other places have their headquarters in Nairobi save for a few.

4.2.4 Nature of Ownership

Ownership is important in the choice of strategy an organization seeks to pursue. Findings of the study are presented in table 4.4 below.

Table 4.4: Nature of MFI ownership

Ownership	Frequency	Percentage (%)
Locally owned	22	73.3%
Foreign owned	1	3.3%
Foreign and locally owned	7	23.4%
Total	30	100%

Source: Survey data

Table 4.4 summarizes the nature of ownership of the respondents as follows: 73.3% are locally owned, 23.4% are both foreign and locally owned while 3.3% are foreign owned. This implies that the majority of the MFIs use locally grafted strategies because foreign institutions sometimes have to pursue the strategies of their foreign based parent organizations.

4.2.5 Years of Existence

The table below shows the years of existence for the thirty MFIs that responded.

Table 4.5: Years of existence

Years	Frequency	Percentage (%)
1 – 5 years	13	43.3%
6 – 10 years	4	13.4%
More than 10 years	13	43.3%
Total	30	100%

Source: Survey data

Some of the MFIs studied are younger while others have been in existence for much longer. Those that have been in existence for 1 – 5 years were 43.3%. It was the same percentage for those that have been in existence for more than 10 years. The least percentage (13.4%) was registered for those that have been in existence for 6 – 10 years. The big percentage of those that have been in existence for 1 – 5 years implies that there has been a high rate of entry into the sector in last five years.

4.2.6 Nature of MFI Business

The study also aimed at assessing the nature of business of the thirty MFIs under review.

Findings are presented in table 4.6 below.

Table 4.6: Nature of MFI business

Nature of business	Frequency	Percentage (%)
Retail MFI	15	50%
Wholesale MFI	2	6.6%
Deposit Taking Microfinance	6	20%
Insurance MFI	2	6.7%
Development Institution	2	6.7%
Banks offering MFI products	3	10%
Total	30	100%

Source: Survey data

Table 4.6 summarizes the nature of business for the respondent institutions as follows: 50% of the respondents are categorized as retail MFIs. 20% are deposit taking MFIs while 10% represented banks offering microfinance products. 6.6% are wholesale MFIs while 6.7% are institutions offering insurance services to the MFIs. The other 6.7% of the MFIs studied are development institutions. From the above it can be deduced that the majority of institutions in the MF sector are retail MFIs that offer micro credit.

4.3 Nature of Competition

The nature of competition in the microfinance sector is responsible for the kind of strategies that the players have adopted. The respondents were asked to rate competition in the microfinance sector and the findings are presented in the table below.

Table 4.7: Nature of competition

Competition	Frequency	Percentage (%)
Not stiff	2	6.7%
Fairly stiff	7	23.3%
Stiff	11	36.7%
Very stiff	10	33.3%
Total	30	100%

Source: Survey data

From the table above it is evident that the majority of MFIs that participated in the study are of the view that competition in the sector is high. 36.7% indicated that competition is stiff while 33.3% reckoned that competition is very stiff. 23.3% think the competition is fairly stiff while 6.7% indicated that the competition is not stiff. From the findings it can be concluded that the competition in the MFI sector is high.

4.4 Competitive Strategies Adopted by MFIs

Competitive strategies adopted by MFIs that were assessed include; cost leadership, differentiation, focus, operational excellence, customer intimacy and product leadership. To analyze the respondents' rating on their application of various aspects/characteristics of the generic strategies, a key or rating scale was used in the questionnaire. A mean score of 5 indicates that the aspect or characteristic of the generic strategies is rated as "to a very great extent" while a mean score of 1 indicates the use as "not at all". Data was analyzed using mean scores. A mean score of less than 1.5 implied that the MFIs strategy adoption was not applicable. A mean score of 1.5 – 2.4 implied very little extent, 2.5 – 3.4 implied to some extent, 3.5 – 4.4 implied to a great extent while a mean score of more

than 4.5 implied to a very great extent. A standard deviation of more than 1 implies that there were significant variations in responses while that of less than 1 means that there were no significant variations in responses and hence consensus.

4.4.1 Cost Leadership Strategy

Cost leadership strategy is important where a firm wants to gain competitive advantage through leveraging IT to deliver value besides offering products and services to a broad customer segment. The strategy also involves a continuous search for cost reduction and maximizing of volume sales. The table below shows the findings on cost leadership strategy.

Table 4.8: Cost leadership strategy

Competitive Strategies	Mean	Standard Deviation
Cost Leadership		
Leveraging IT to deliver value e.g. use of mobile banking	3.86	0.97
Offering products and services to a broad customer segment	4.03	1.09
Continuous search for cost reduction	3.88	0.97
Volume sales / maximizing economies of scale	3.69	1.01
Average	3.87	1.01

Source: Survey data

To be able to compete and attain cost leadership, MFIs were found to offer products and services to a broad customer segment to a great extent. This was confirmed by a mean score of 4.03. They continuously search for cost reduction to a great extent as was

confirmed by a mean score of 3.88. To a great extent, MFIs were also found to leverage on IT to deliver value. This had a mean score of 3.86. With a mean score of 3.69, they were found to maximize on volume sales/economies of scale to a great extent. The average mean score for cost leadership strategy was 3.87. The findings show that to be able to compete effectively, cost leadership strategy has been adopted to a great extent by the MFIs in Kenya.

In conclusion, MFIs to a great extent have offered products and services to a broad customer segment, they have continuously searched for cost reduction, they have leveraged IT to deliver value and they have also maximized on volume sales/economies of scale. Although the above findings shows that cost leadership strategies have been adopted to a great extent, there was significant variation in the responses with regard to offering products and services to a broad customer segment and maximizing on volume sales / economies of scale.

4.4.2 Differentiation Strategy

Differentiation strategy is important where a firm wants to gain competitive advantage through innovative products and process re-engineering, marketing and advertising activities, offering unique products/services for which customers are willing to pay more, quality service and use of corporate image as a selling point. The table below shows the findings on differentiation strategy.

Table 4.9: Differentiation strategy

Differentiation	Mean	Standard Deviation
Innovative products and process re-engineering	4.00	0.64
Marketing and advertising activities	3.69	0.69
Unique products/services for which customers are willing to pay more	4.16	0.82
Use of corporate image as a selling point	3.50	1.14
Service quality and customer care	4.44	0.60
Average	3.96	0.78

Source: Survey data

The findings show that MFIs to a great extent employ customer care and give quality service. This was supported by a mean score of 4.44. They also offer to a great extent unique products and services for which customers are willing to pay more. This was supported by a mean score of 4.16. MFIs to a great extent differentiate through innovative products and process re-engineering as was confirmed by a mean score of 4. They use marketing and advertising activities to a great extent and this was supported by a mean score of 3.69. MFIs use of corporate image as a selling point to a great extent as was confirmed by a mean score of 3.5. The average mean score for differentiation was 3.96. This implies that differentiation strategy has been adopted to a great extent by the MFIs in order to compete effectively.

In conclusion, MFIs to a great extent have offered quality service, unique products and services for which customers are willing to pay more, innovative products and process re-engineering, employed marketing and advertising activities and used corporate image as a

selling point. Although the above findings show that differentiation strategies have been adopted to a great extent, there was significant variation in the responses with regard to the use of corporate image as a selling point.

4.4.3 Focus Strategy

Focus strategy is important where a firm wants to gain competitive advantage through focus on unique areas of business, offering products or services distinctly different from those of competitors and focusing on products or services that target niche market or narrow customer segment. The table below shows the findings on focus strategy.

Table 4.10: Focus strategy

Focus	Mean	Standard Deviation
Focus on unique areas of business	3.94	0.99
Products or services distinctly different from those of competitors	3.78	0.85
Products or services that target niche market or narrow customer segment	3.53	1.17
Average	3.75	1.00

Source: Survey data

The findings on focus strategy show that MFIs to a great extent focus on unique areas of business. This was confirmed by a mean score of 3.94. They also offer Products and services distinctly different from those of competitors to a great extent as was confirmed by a mean score of 3.78. MFIs also offer to a great extent products and services that target niche market or narrow customer segment. This had a mean score of 3.53. The

average mean score for focus strategy was 3.75 implying that focus strategy has been adopted to a great extent by the MFIs in Kenya in order to compete effectively.

In conclusion, MFIs to a great extent have focused on unique areas of business. They have also focused to a great extent on products or services distinctly different from those of competitors as well as products or services that target niche market or narrow customer segment. Although the above findings show that focus strategies have been adopted to a great extent, there was significant variation in the responses with regard to offering products or services that target niche market or narrow customer segment.

4.4.4 Operational Excellence Strategy

Operational excellence strategy is important where a firm wants to gain competitive advantage by providing customers with convenient and reliable products or services at competitive prices, employing cost minimization through reduction in overheads and optimizing business processes across functional and organizational boundaries. The table below shows the findings on operational excellence strategy.

Table 4.11: Operational excellence strategy

Operational Excellence	Mean	Standard Deviation
Cost minimization through reduction in overheads	4.13	0.68
Providing customers with convenient and reliable products or services at competitive prices	4.38	0.56
Optimizing business processes across functional and organizational boundaries	3.75	0.74
Average	4.08	0.66

Source: Survey data

The findings on operational excellence strategy show that MFIs to a great extent provide customers with convenient and reliable products or services at competitive prices. This was supported by a mean score of 4.38. They also employ cost minimization to a great extent through reduction in overheads as was confirmed by a mean score of 4.13. MFIs to a great extent optimize business processes across functional and organizational boundaries. This had a mean score of 3.75. The average mean score for operational excellence strategy was 4.08. This implies that operational excellence strategy has been adopted to a great extent by the MFIs in Kenya in order to compete effectively.

In conclusion, MFIs to a great extent have provided customers with convenient and reliable products or services at competitive prices beside cost minimization through reduction in overheads. They have also focused to a great extent on optimizing business processes across functional and organizational boundaries. The above findings shows that there was no significant variation in the responses with regard to this strategy and hence consensus.

4.4.5 Customer Intimacy Strategy

Customer intimacy strategy is important where a firm wants to gain competitive advantage through detailed customer knowledge with operational flexibility, customizing products to fulfill special requests to create customer loyalty and offering tailored products or services to match the demands of identified niches. The table below shows the findings on customer intimacy strategy.

Table 4.12: Customer intimacy strategy

Customer Intimacy	Mean	Standard Deviation
Detailed customer knowledge with operational flexibility	4.34	0.68
Customizing products to fulfill special requests to create customer loyalty	4.03	0.84
Tailored products or services to match the demands of identified niches	4.13	0.82
Average	4.17	0.78

Source: Survey data

Findings on customer intimacy strategy shows that MFIs to a great extent seek detailed customer knowledge with operational flexibility. This was confirmed by a mean score of 4.34. They also tailor products or services to match the demands of identified niches to a great extent. This presented a mean score of 4.13. To a great extent, MFIs do Customize products to fulfill special requests in order to create customer loyalty. This presented a mean score of 4.03. The average mean score for customer intimacy strategy was 4.17 implying that customer intimacy strategy has been adopted to a great extent by the MFIs in Kenya.

In conclusion, MFIs to a great extent have gained detailed customer knowledge with operational flexibility, they have tailored products or services to match the demands of identified niches and they have to a great extent customized products to fulfill special requests and to create customer loyalty. The above findings shows that there was no significant variation in the responses with regard to this strategy and hence consensus.

4.4.6 Product Leadership Strategy

Product leadership strategy is important where a firm wants to gain competitive advantage through focus on continuous improvement, offering leading-edge products or services and innovativeness and the ability to stay ahead of competition with a stream of new products. The table below shows the findings on product leadership strategy.

Table 4.13: Product leadership strategy

Product Leadership	Mean	Standard Deviation
Offering leading-edge products or services	4.16	0.74
Innovativeness and the ability to stay ahead of competition with a stream of new products	3.91	0.75
Focus on continuous improvement	4.50	0.51
Average	4.19	0.66

Source: Survey data

The MFIs have to a great extent focused on continuous improvement. This presented a score of 4.5. They have also offered leading-edge products and services to a great extent as was confirmed by a mean score of 4.16. They have to a great extent adopted innovativeness and the ability to stay ahead of competition with a stream of new

products. This had a mean score of 3.91. The average mean score for product leadership strategy was 4.19 implying that product leadership strategy has been adopted to a great extent by the MFIs in Kenya.

In conclusion, MFIs to a great extent have focused on continuous improvement, offering leading-edge products or services and innovativeness and the ability to stay ahead of competition with a stream of new products. The above findings show that there was no significant variation in the responses with regard to this strategy and hence consensus.

4.5 Other Strategies Employed by MFIs

Other than the competitive strategies listed above, the respondents were asked to indicate other strategies that MFIs in Kenya employ to remain competitive. The results are as follows:

Table 4.14: Other strategies

Other strategies	Frequency	Percentage (%)
Embracing innovation as a strategy	7	23.3%
Better ways of managing the risk especially through the use of Credit Reference Bureaus	5	16.7%
Outsourcing of non-core services	4	13.3%

Source: Survey data

The majority of respondents reckoned that embracing innovation (23.3%) was the way forward in order to remain competitive. Those that indicated better ways of managing the risk especially through the use of Credit Reference Bureaus were 16.7% while those that indicated outsourcing of non-core services were 13.3%. The other strategies indicated include strategic partnership with banks and SACCOs so as to offer products and services

to their clients, engaging in continuous market research that leads to a better understanding of the market besides establishing better ways of improving products and services. Others indicated benchmarking with institutions that have converted into commercial banks, employing professionals to drive the businesses, use of agency model, setting up of contact centres so as to cater for customers 24 hours a day and engaging in corporate social responsibility.

The research findings established that the competition in the MFI sector is high. It also confirmed that MFIs in Kenya applied Porter's generic strategies as well as Treacy and Wiersema's. All the competitive strategies investigated namely; cost leadership, differentiation, focus, operational excellence, customer intimacy and product leadership have been applied. They have all been adopted by the MFIs to a great extent.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the discussions, conclusion and recommendations drawn after analyzing data. Findings have been summarized alongside the objective of the study which was to establish the competitive strategies adopted by MFIs in Kenya. Conclusions have also been drawn from the study and recommendations for action are also given.

5.2 Summary of Findings

The study obtained a fifty seven percent response rate which was considered to be sufficient for the objective of the study to be achieved. From the findings of the study, the majority of the respondents were the Operations managers and senior managers implying that they were more assessable than the directors/CEOs. The majority of MFIs had branches both in Nairobi and outside. Besides being geographically spread in Nairobi those that have spread to other places had their headquarters in Nairobi save for a few. The majority of MFIs are locally owned implying that the majority use locally grafted strategies as opposed to foreign institutions which sometimes have to pursue the strategies of their foreign based parent organizations. The big percentage of those that have been in existence for 1 – 5 years implied that there has been a high rate of entry into the sector in last five years. Also the majority of institutions in the MF sector are retail MFIs that offer micro credit.

The research findings established that the competition in the MFI sector is high. It also confirmed that MFIs in Kenya applied Porter's generic strategies as well as Treacy and Wiersema's. All the competitive strategies investigated namely; cost leadership, differentiation, focus, operational excellence, customer intimacy and product leadership have been applied. They have all been adopted by the MFIs to a great extent.

As far as cost leadership strategy is concerned, the MFIs have to a great extent offered products and services to a broad customer segment, they have continuously searched for cost reduction, they have leveraged IT to deliver value and they have also maximized on volume sales/economies of scale. With regard to differentiation strategy, the MFIs have to a great extent offered quality service, unique products and services for which customers are willing to pay more, innovative products and process re-engineering, employed marketing and advertising activities and used corporate image as a selling point. As for the focus strategy, the MFIs have to a great extent focused on unique areas of business. They have also focused to a great extent on products or services distinctly different from those of competitors as well as products or services that target niche market or narrow customer segment.

As for the operational excellence strategy, the MFIs have to a great extent provided customers with convenient and reliable products or services at competitive prices beside cost minimization through reduction in overheads. They have also focused to a great extent on optimizing business processes across functional and organizational boundaries. As far as customer intimacy strategy is concerned, the MFIs have to a great extent gained detailed customer knowledge with operational flexibility, they have tailored products or services to match the demands of identified niches and they have to a great extent

customized products to fulfill special requests and to create customer loyalty. With regard to product leadership strategy, the MFIs have to a great extent focused on continuous improvement, offering leading-edge products or services and innovativeness and the ability to stay ahead of competition with a stream of new products. The findings however achieved the objective of the study by answering the research question which sought to establish the competitive strategies that MFIs employ in order to remain competitive.

5.3 Conclusion

Microfinance institutions have employed various generic strategies to remain competitive in the industry. This study supports the earlier studies that have confirmed that the strategies adopted by MFIs must be competitive. The study has confirmed the application of generic strategies by MFIs in Kenya. They should also seek to provide differentiated products which customers need. The implication is that a business following a differentiation strategy has to review bases of differentiation continually and keep changing with time and changes in customer needs (aim at a moving target).

It calls for the MFIs to craft strategies that will create competitive advantage. The competitiveness must be sustainable to outperform the competitors. By operating in environments that are turbulent, the key challenge for managers is to ensure both competitiveness and profitability. In order to maximize the market share and eventually reap the economies of scale, the organizations must direct their attention to the customers and hence provide quality goods and services. The focus should be on serving the future needs of the MFIs' customers using their existing strength. In so doing, the organization makes incremental moves to progressively satisfy the future needs of their customers. In

order to cope with unhealthy competition and price wars, mergers and acquisitions together with product innovation are recommended.

5.4 Recommendations

From the findings of this study, it is worth noting that many microfinance institutions have adopted a variety of competitive strategies. Well implemented strategies have attracted many people to save and borrow and this confirms how slowly those members have gotten themselves out of poverty. When evaluating the success of the work of MFIs, it is important to know that poverty is not just lack of credit but also other dimensions for example deprivation, powerlessness, health factors and illiteracy. These areas of development are extremely important to consider when working with poor people. The firms should aim at creating sustainable positive changes in the lives and livelihoods of their members. It is important to note that MFIs are an answer to the problems of the poor and hence deserve all the support that it can be given by all people, managers, policy makers and even the clients themselves.

Microfinance institutions operate in stiff competition hence they must strive to attract and retain the target market. While most are operating on profit basis, the type of products and services they offer are supposed to be the best compared to other MFIs offering the same products and services. The MFIs hence need to employ strategies that would ensure superior value and performance. The differentiation strategy is highly recommended since there are a lot of substitute products in the market. This would mean that MFIs offer services and products that differentiate them from others.

MFIs should lay focus on customer oriented strategies instead of product oriented strategies. The contemporary trend in the banking and MF industry focuses essentially on the customer. The availability of a wide range of services is not sufficient on its own; it is rather defined by the customer. More research is also required in order to validate the results of this study. It is also highly recommended that the sector be adequately regulated.

5.5 Suggestions for Further Study

There is need for more research in this area to validate the findings of this study. However, there exists great opportunities for further studies in this sector and more so in the area of strategy. This is because this sector is among the newest in Kenya yet it has grown tremendously in a short span of time. Therefore it would be viable to carry out a study on the challenges faced by MFIs on group loan guarantee mechanism in order to give more efficient mechanism of loan recovery. There is need for further research to determine the factors influencing the choice of the particular options of the generic strategies. Further research should be conducted to determine whether MFIs knowingly or otherwise portrayed cartel like tendencies especially when pricing their products. Research can also be directed to a narrow segment of the industry e.g deposit taking or wholesale MFIs.

5.6 Implications on Policy and Practice

The challenge of competition which was cited by almost all the MFIs surveyed is mainly due to the number of firms which are operating in the market. Many MFIs have pioneered a holistic, bottom-up strategy that has empowered hundreds of thousands of men and

women all over Kenya to meet their basic needs on a sustainable basis. Success is measured on the basis of how many people have climbed up from poverty. They are against the idea that microfinance can only assist the economically viable.

Policy makers understand the importance of a well-designed microfinance programmes and policies that reaches out to the poorest in the community. Most often the poorest people are missed out either because they are excluded by microfinance organizations or they will tend to exclude themselves not seeing the programmes being their own. Their approach of both savings and lending to education, health insurance schemes are efficient ways to support the members in their way out of poverty. The MFIs allow poor people to protect, diversify and increase their sources of income, the essential path out of poverty and hunger.

The economic effect experienced by the members of MFIs is one of the most immediate one. This in turn has a strong impact on a wide range of poverty reduction targets such as income, health, nutrition and education. A sustainable economic effect on an individual is only achieved when members and their families become self-sufficient and can support themselves without further assistance. The Microfinance Act and other government regulations should be improved or strengthened to encourage growth and prosperity in this sector.

5.7 Limitations of the Study

A number of limitations were encountered when carrying out this study. The researcher's intention was to carry out a survey of all the MFIs in Kenya but a number of factors played against this intention.

Time was a limited resource. Again, some institutions refused to give the researcher audience. The subject matter was considered confidential by some potential respondents and for that reason they declined to complete the questionnaires. Some of the questionnaires were only halfway answered and hence calling for personal visits to interview them face to face. Despite the above factors, the researcher is confident that the limitations did not impair the study results.

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APPENDIX I: QUESTIONNAIRE

This questionnaire seeks to collect information on the various competitive strategies employed by microfinance institutions in Kenya. Kindly answer the questions by filling in the spaces provided. All information received will be treated confidentially and used for academic purposes only.

PART A: GENARAL INFORMATION

1. Name of the MFI: _____

2. What is your designation in the organization? (Tick appropriately)

Director (CEO) ☐

Senior manager ☐

Head of department ☐

Operations Manager ☐

Other (please specify): _____

3. How many branches does your organization have? (Tick appropriately)

1 branch ☐

2 – 5 branches ☐

6 – 10 branches ☐

More than 10 branches ☐

4. What is the geographical spread of your organization? (Tick appropriately)

In Nairobi only ☐

Outside Nairobi ☐

Nairobi and other places ☐

5. Nature of ownership (Tick appropriately)

Locally owned ☐

Foreign owned ☐

Foreign and locally owned ☐

6. Year of incorporation: (Tick appropriately)

1 – 5 years ☐

6 – 10 years ☐

More than 10 years ☐

7. What is the nature of your business? (Tick appropriately)

Retail (Micro credit) ☐

Wholesale ☐

Microfinance bank (DTM) ☐

Insurance

☐

Development institution

☐

Other (please specify): _____

PART B

8. How would you rate competition in microfinance sector? (Tick appropriately)

1 = None

2 = Not stiff

3 = Fairly stiff

4 = Stiff

5 = Very stiff

9. What are your reasons for Q8 above?

10. To what extent does your organization lay emphasis on the following strategies?

(Tick appropriately)

	5 To a very great extent	4 To a great extent	3 To some extent	2 Very little	1 Not at all
Cost Leadership					
Leveraging IT to deliver value e.g. use of mobile banking					
Offering products and services to a broad customer segment					
Continuous search for cost reduction without sacrificing quality and essential features of the products/services					
Volume sales / maximizing economies of scale					
Differentiation	5	4	3	2	1
Innovative products and process re-engineering					
Marketing and advertising activities					
Unique products/services for which customers are willing to pay more					
Use of corporate image as a selling point					
Service quality and customer care					
Focus	5	4	3	2	1
Focus on unique areas of business					
Products or services distinctly different from those of competitors					
Products or services that target niche market or narrow customer segment					
	5	4	3	2	1

	To a very great extent	To a great extent	To some extent	Very little	Not at all
Operational Excellence					
Cost minimization through reduction in overheads					
Providing customers with convenient and reliable products or services at competitive prices					
Optimizing business processes across functional and organizational boundaries					
Customer Intimacy	5	4	3	2	1
Detailed customer knowledge with operational flexibility					
Customizing products to fulfill special requests to create customer loyalty					
Tailored products or services to match the demands of identified niches					
Product Leadership	5	4	3	2	1
Offering leading-edge products or services					
Innovativeness and the ability to stay ahead of competition with a stream of new products					
Focus on continuous improvement					

11. Other than what is listed in Q10 above, what other strategies do MFIs in Kenya employ to remain competitive?

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

Thank you.

**APPENDIX II: LIST OF MICROFINANCE INSTITUTIONS IN
KENYA - (AMFI MEMBERS)**

1	AAR Credit Services
2	ADOK TIMO
3	Agakhan First Microfinance Agency
4	BIMAS
5	Blue Limited
6	Canyon Rural Credit Limited
7	Century DTM LTD(Interim)
8	Chartis Insurance
9	CIC Insurance
10	Co-operative Bank
11	ECLOF Kenya
12	Equity Bank
13	Faulu Kenya DTM Limited
14	Fusion Capital Ltd
15	Greenland Fedha Limited
16	IndoAfrica Finance
17	Jitegemea Credit Scheme
18	Jitegemee Trust Limited
19	Juhudi Kilimo Company Limited
20	K-Rep Bank Ltd
21	K-Rep Development Agency
22	KADET
23	Kenya Entrepreneur Empowerment Foundation (KEEF)
24	Kenya Post Office Savings Bank
25	Kenya Women Finance Trust
26	Kilimo Faida
27	Micro Africa Limited
28	Micro Enterprises Support Fund (MESPT)
29	Microensure Advisory Services
30	Molyn Credit Limited
31	Muramati SACCO Society Ltd
32	Musoni
33	Ngao Credit Ltd
34	Oikocredit
35	One Africa Capital Limited
36	Opportunity International
37	Pamoja Women Development Programme (PAWDEP)
38	Platinum Credit Limited
39	Rafiki Deposit Taking Microfinance Ltd
40	Remu DTM Limited
41	Renewable Energy Technology Assistance Programme (RETAP)

- 42 Rupia Limited
- 43 Select Management Services Limited
- 44 SISDO
- 45 SMEP DTM Limited
- 46 Sumac Credit Ltd
- 47 Swiss Contact
- 48 Taifa Option Microfinance
- 49 U & I Microfinance Limited
- 50 Uwezo DTM Ltd
- 51 Women Enterprise Fund
- 52 Yehu Microfinance Trust
- 53 Youth Initiatives - Kenya (YIKE)

Source: www.amfikenya.com (2011)

APPENDIX III: LETTER OF AUTHORIZATION