# COMPETITIVE STRATEGIES ADOPTED BY FAULU MICROFINANCE BANK, KENYA

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

## DECLARATION

This research proposal is my original work and has never been submitted for examination to any other University.

**Signature…………………………….. Date………………………………**

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**D61/67816/2013**

This proposal has been submitted with my authority as the university supervisor.

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## DEDICATION

This project is dedicated to my family who has all endeavored to see that I have reached this far in my academic journey. In addition, I dedicate this project to my colleagues at work place whose support enabled me to balance work and study. Further, I dedicate this project to my MBA classmates and lecturers in the School of Business who have been of great assistance to my academic progress. Lastly, I dedicate this project to my friends for their understanding of my unavailability during social events on weekends. To you all I say a big thank you for being there for me.

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## ABSTRACT

The objective of the study was to determine the competitive strategies adopted by Faulu microfinance bank, Kenya to gain competitive advantage in the banking industry. The banking industry has experienced a rapid growth in terms of profits, deposits and revenues in the recent past. This trend has triggered a lot of competition in the banking industry. The study used the case study approach. An interview guide was used as a data instrument to collect primary data from the targeted four interviewees in each department. Interview guides were administered to Heads in specific department in Faulu microfinance bank, Kenya in the departments of finance, marketing, operations and research and development. In this case data was evaluated and presented in form of content analysis. The study found out that Faulu microfinance bank Kenya has employed cost leadership, focus strategy, strategic alliance and differentiation competitive strategies The researcher recommends that Faulu Kenya should focus on developing and implementing effective strategies that will enable the bank survive in the competitive environment. In addition, the bank should focus on greater development of the bank's intermediary role so that it can provide a more complete set of financial services to micro-enterprises; improve the Management Information System; develop simple but comprehensive processes and instruments to guide its lending operations; identify alternative forms of collateral and ways to incorporate that collateral into its lending schemes; and devise ways to access funds from the financial markets. The study is limited to Faulu Microfinance bank and it is a platform for further studies that can study all the microfinance banks.

## ABREVIATIONS AND ACRONYMS

**AMFIK** - Association of microfinance banks in Kenya

**CBK** - Central Bank of Kenya

**CEO** - Chief Executive Officer

**DFID** - Department for International Development

**DTM** - Deposit Taking Microfinance

**FHI** - Food for the Hungry International

**K-Rep** - Kenya Rural Enterprise Programme

**MBA** - Masters of Business Administration

**MFIs** - Micro Finance Institutions

**NGO's** – Non Governmental Organizations

**USAID** - United States Agency for International Development

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Organizations today, have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Strategies play a pivotal role in enabling the firm to cope with challenges in the external environment. Johnson and Scholes (2008) argue that strategy is needed to define the organization; it serves not only to direct the attention of the people working within the organization but also to give the meaning for them as well as for the outsiders. Porter (2008) argues that a strategy gives a clear plan and direction on how to achieve the mission and the vision. Strategy necessitates the need for a strategic plan; this aids the organization to ensure that strategies are compatible with it's the goals and objective. According to Strickland et al. (2008) strategy is needed to mitigate uncertainty and provide consistency in order to aid in cognition, to satisfy intrinsic needs and to promote efficiency.

Resource dependency theory is based on the premise that a firm is involved in transactions with other actors and firms in its environment in order to acquire resources. Pfeffer and Salami (2003) indicate that resources that the firm requires may be scarce or under the control of noncooperative players. This leads to unequal exchange that brings about differences in power, authority and access to additional resources. This creates a need to develop strategies to cope with changes in the environment. Bertone and Clark (2009) indicate that access to strategic resources offer a firm an opportunity to develop it core competence and thus acquire a competitive edge against its competitors.

These competitive abilities enable the organization to boost its profitability. Proff (2000) puts forth that resources are valuable since they assist an organization to adopt a strategy and exploit opportunities

McIntosh et al. (2005) indicate that microfinance institutions play a critical role in providing access to financial services to its customers and financial advice to those seeking to invest in profitable investments. Robinson (2001) explains that microfinance institutions should consider adopting competitive strategies to maintain a competitive edge against their competitors in terms of speed, efficiency, cost and quality. This contributes towards achieving the goal of providing quality services that serve the growing needs of customers.

### 1.1.1 Concept of Strategy

According to Porter (2008) a strategy is a plan of action designed to achieve a specific goal or more than one goal in an organizational setting. For a strategy to work, it is important to be able to imagine and evaluate the possible consequences of alternative courses of action (Johnson et al., 2008). There should be adequate knowledge of competition and characteristic higher order effects of alternative actions.

Strategy is the determination of the long run goals and objectives of an organization. It involves the use of maximum use of firm’s resources to enhance its capabilities to compete. According to Hitt, Ireland and Hoskisson (2007) the importance of strategy is that the available resources to achieve the desired goals are very limited.

Strategy involves setting goal, determining the actions to achieve the set goals and putting the resources together to execute the actions. A strategy describes how the set goals will be achieved through utilizing the available resources.

The top management of the organization is tasked to determine the strategies based on the opportunities or challenges in the external environment. Strategy is a pattern of activity that the organization adapts to its environment or competes. It involves activities such as strategic planning and strategic thinking (Hitt et al, 2007). A strategy defines the firm's mission, vision and the objectives. It helps in developing policies and plans to execute the vision: and proper allocation of resources to implement policies and plans (Mintzberg, 2005).

The significance of strategy is because the resources available for achieving organizational goals are limited. Strategy involves goal setting, determining actions to achieve the goals, and mobilizing resources to execute the actions. According to Thompson and Strickland (2002) a strategy describes how the end goals are achieved by means (resources). The organization's competitive goal is to ensure that their customers get satisfaction. The success of an organization is highly determined by its responsiveness to customer needs and thus enabling the firm to gain a competitive edge to outdo their competitors in the market place.

### 1.1.2 Competitive Strategies

Spanos et al. (2004) define a competitive strategy as a long-term action plan that is designed to assist an organization to gain competitive advantage against its competitors. This kind of strategy may be used for instance in an advertising campaign by discrediting the competitor's products and services.

Competitive strategies play a key role to firms competing in markets that are heavily saturated with alternatives for consumers.

Walsh et al. (2008) indicates that competitive strategies enable the organization to produce and sell goods more effectively than another business. In most cases, firms design business strategies to maintain a competitive edge against their competitors. Salavou (2013) states that there certain types of strategies in the business environment. Business owners can apply standard strategies or develop their own. Flexibility is a key feature of competitive business strategies. Firms adopt competitive strategies to deal with challenges in the external environment some environment.

According to Robert et al. (2004) competition is one of the reasons why firms result to adoption of competitive strategies to cope with the external environment. Successful implementation of competitive strategies enables the firm to gain competitive abilities against its competitors. This improves the firm's profitability. To survive in the business environment depends on the organization's ability to compete effectively. Firms must continuously update themselves in a variety of product and service components that are essential to consumers and stakeholders (Bertone and Clark, 2009).

Salavou (2010) posit that competitive methods comprises of skills and resources that are available for use by firms in a competitive environment. Competitive methods include use of available skills and resources for use by firms in a competitive industry. Spanos et al. (2004) explain that superior skills in terms of staff capability, systems, or marketing savvy that are not possessed by a competitor. To successfully implement their strategies firms should make maximum use of their physical resources that are available to assist them in strategy implementation.

This helps to boost performance and profitability of the firm. A superior resource is defined in terms of physical resources that are available to help strategic implementation.

### 1.1.2 Microfinance Institutions in Kenya

According to (CBK, 2015), microfinance Act of 2006 provides that the supervisory and regulatory framework for microfinance institutions in Kenya. The Microfinance act was effective from 2$^{nd}$ of May (2008). One of its main functions is to regulate the establishment, licensing and supervision. The acts enable microfinance firms to mobilize savings from the public. This helps in promoting competition, efficiency and access to accredit facilities.

The banking industry has grown rapidly the last few decades. New entrants, new products and practice and a growing need to meet customer needs have enhanced growth (Porteous, 2006).

Technological advancement and other microeconomic factors like financial liberalization have led to improved services, new products and growth of microfinance institutions. This has shifted focus to microfinance institutions to devising competitive strategies that can accommodate the dynamics of the market environment among the finance service providers (Dondo, 2001).

McIntosh et al., (2005) indicates that the increasingly competitive and dynamic marketplace is starting to be reflected in a growing number of players. This is a sign of a key transformation since early 1990's when there was no competition. During this era microfinance institutions did not worry about competition. But today, competition has intensified in the

### 1.1.3 Faulu Microfinance Bank

Faulu started as a development project in 1991, initiated by Food for the Hungry International, a Christian international relief and development organization. This institution was registered as an NGO in 1994 and its main objective was to issues credit facilities to low income households and micro-enterprises. Later, Faulu grew over the years to a level of close to self-sufficiency (Faulu, 2015).

According to Dondo (2001), in the year 2000, Faulu gained self-reliance and its portfolio deteriorated significantly in 2002. This was after making efforts to enlarge its main target group which was the lower market to include the up market. The firm faced challenges for 2 years which attributed to a loss in 2004 as a result of high provisions for non-performing loans. In 2007; Faulu underwent transformation to become one of the three largest microfinance institutions in Kenya.

It had 19 operational branches, 48 offices and an estimated client base of 76,000. Its main competitors were other large MFIs that served a similar customer segment for instance Kenya Women Finance Trust which dealt with women (Faulu, 2015).

Faulu received the letter of intent for the approval of a deposit-taking license on 24th December 2008. The Central Bank of Kenya issued them with the license on 21st May 2009. Faulu's pilot branch was opened in Mombasa in April 2008. By the end of 2010, Faulu had set up a network of 25 branches (CBK, 2015).

## 1.2 Research Problem

Hitt, Ireland and Hoskisson (2007) indicate that competitive strategies provide an organization with a competitive edge against its competitors by ensuring maximum utilization of resources and enhancing efficiency. The firm should ensure a proper fit between strategy and goals. This has to be in line with the goals and the objectives of the firm. Thompson and Strickland (2002) contend that to succeed in strategy implementation there has to be a match between strategy and the capabilities of the firm. The organization's practices should fit what is required for strategic success to ensure a unified stand towards the accomplishment of strategy to penetrate the market (Ortega, 2010).

It is worth noting that in Kenya today, there has been a growing trend of microfinance institutions which has led to saturation in the market leading to competition. Robinson (2001) put forth that Microfinance institutions aim at alleviation poverty through providing access to credit as a source of capital to start a business. To cope with this kind of competition Faulu Kenya should consider adopting competitive strategies to counter challenges and boost its market penetration.

Studies have been done globally and locally in relation to competitive strategies and how it relates to market penetration. McIntosh et al. (2005) explored the effect of competition among microfinance institutions in Ugandan microfinance market. It was concluded that there was need to adopt competitive strategies to increase market penetration. Lamb and Boyden (2011) investigated the challenges influencing implementation of competitive strategies.

The results confirmed that the challenges facing organizations are: lack of financial resources, high cost of borrowing funds, marketing abilities and staff skills among others. This negatively impacts on market penetration.

Kinyua (2010) carried out a study on the competitive strategies adopted by microfinance institutions in Nairobi, Kenya. The study found out that the microfinance organizations keep on renewing their strategies to achieve competitive advantage in the current ever-changing and turbulent environment. Wangure (2012) sought to determine how deposit taking microfinance institutions in Kenya could achieve sustainable competitive advantage through product differentiation strategies. The study established that product differentiation strategies had been effective to a very great extent as it had enabled them to achieve market penetration. Nyongesa (2012) studied strategies adopted by K-Rep Bank Ltd to gain competitive advantage. The findings revealed that the bank had been using product offering diversification, branch expansion, relationship marketing, financing, cost management, customer-care, innovation, and information technology strategies to achieve market penetration.

From the above studies, no study has focused on competitive and leadership strategies adopted by Faulu to achieve market penetration. Therefore, there is a need to answer the questions: What are the competitive strategies adopted in Faulu, Kenya?

## 1.3 Research Objective

The objective of this study was to determine the competitive strategies adopted by Faulu microfinance bank, Kenya.

## 1.4 Value of the Study

This study will benefit the other microfinance institutions, the government of Kenya, development partners, NGO's, Donor communities and other stakeholders as the findings will facilitate policy setting in promoting growth and stability of microfinance banks in Kenya.

The banking industry may stand to benefit from the findings of this study, they will learn about the competitive strategies that Faulu adopts. This will enlighten them on the best strategies to adopt to boost penetration and growth. It will also provide more insights on how firms align themselves with dynamics of the environment to achieve their goals for example innovation and creativity through strategy adoption and top management support.

This study will contribute to the existing body on knowledge; it will provide more knowledge on the competitive strategies used microfinance institutions, challenges of implementing these strategies and ways to counter them. In addition, the study might contribute to theory; researchers will expand their knowledge on the theory that supports the research objectives and its relationship with empirical studies. Researchers interested in this area of study or related discipline might use the findings of this study as a basis for further research.

## 1.5 Chapter Summary

This chapter has discussed the background of the Faulu Microfinance Bank, the history of the bank and its ownership and how it has evolved to current position. The research problem is discussed here and the value to which this project will add. The research objective is also tackled in this chapter.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter provides review of literature relevant to the study. The theoretical foundation, competitive strategies adopted by firms and the relationship between competitive strategies and market penetration.

## 2.2 Theoretical Foundation

This section covers the theory supporting this study in relation to competitive strategies and market penetration. The theories are: resource based theory and resource dependency theory.

### 2.2.1 Resource-Based View

Beal (2010) indicates that the control of strategic resources offers an organization with opportunity to make maximum use of its resources to a bid to develop competitive advantage over its competitors. The competitive gains in turn assist the organization to reap higher profits. According to Proff (2000) strategic resources are invaluable assets that are rare, difficult to duplicate and not substitutable. A resource is valuable to the extent that it helps a firm create strategies that exploit on opportunities and fight threats off.

Porter (2008) indicates that organizations should align their resources, skills and capabilities into core competence.

This makes them to gain a competitive edge against their competitors. Core competencies in this case are the activities that an organization does better than its rivals.

A strategy acts as an integral part of the organization's goals and objectives in a firm, strategy acts as a plan of action that links together an organization's key goals, policies and action sequences towards achieving the vision and the vision (Barney and Clark, 2009).

A strategy that is well aligned to the organization's goals and objectives play an essential role of assembling and allocation of an organization's resources into a viable setting based on the organizational capabilities, external environment and contingent moves by their competitors. Mintzberg (2005) defines a strategy as a plan of actions that is designed to achieve certain goals and objectives.

### 2.2.2 Resource Dependency Theory

According to Pfeffer and Salancik (2003) actors lacking in essential resources will strive to establish relationships with others to get the resources. This theory is important to the study because it demonstrates the extent to which a firm can go to acquire resources to execute its plans in order to achieve its goals. Organizations attempt to alter their dependence relationships by minimizing their own dependence or by increasing the dependence of other organizations on them.

Lamb and Boyden (2011) indicate that organizations are seen as coalitions alerting their structure and patterns of behavior in order to acquire and maintain the required external resource.

When a firm obtains the external resources it reduces the level of its dependence on others and thus increases the extent of dependence by others. This essentially means that the firm is able to develop core competence since its less dependence on others while other organizations heavily depend on it. This results to competitive advantage of the organization.

The supporters of this theory**:** Stern & Stalk (2001) argue that the firm is assumed to consist of internal and external coalition which emanate from the social exchanges that are formed to enhance and control behavior. The external environment is assumed to consist of scarce and valued resources that are key for an organizational survival. This is because of the uncertainty involved in the external environment in resource acquisition.

Going by these facts, the banking environment is dynamic however; it is characterized by risks and uncertainties due to changes in the external environment. This necessitates the need for adopting strategies to counter challenges in the external environment.

According to Ortega (2010), organizations aim to achieve two key objectives namely: control over resources in order to reduce dependence on other firms and gain control over resources that enhance dependence of other firms on themselves.

### 2.3 Types of Competitive Strategies

The term competitive strategies have been defined differently by different authors. According to Spanos et al. (2004) competitive strategy is an advantage got by an organization when it is able to provide the same value just like its competitors in a cheaper price. Alternatively, the organization can charge higher premiums by providing value addition by differentiation. Organizations achieve competitive advantage through matching their core competencies to opportunities. According to Porter (1996) implementation of competitive strategies helps organizations in competitive markets and is heavily saturated with alternatives for consumers.

Being successful in such kind of a market is necessary for the organization to describe its winning proposition in simple and convincing manner (Salavou and Halikias, 2009).

Strickland et al. (2008) posit that competitive strategy is a long term action plan that is devised by a firm to gain a competitive edge against its rivals. Competitive strategy entails actions taken to attract consumers to cope with market pressures and to strengthen the organization’s market position. The competitive advantage gained by the organization could either be high operational efficiency and improved customer value. To cope with the dynamics of the external environment, firms adopt various strategies to position themselves competitively and out do their competitors in the market place (Marques, 2000). Some of the competitive strategies that have been discussed below include: cost leadership, focus strategy, differentiation focus strategy and strategic alliances.

Firms producing at lower costs enjoy better profits. Jacome et al. (2002) indicates that cost leadership strategy can be implemented by organizations to attain cost advantages over its rivals. This is mostly used by large firms that offer standard products. This enhances market share since the firms are able to target a wider group of consumers.

(Leitner and Guldenberg, 2010) Firms that offer products at the low cost in the market are able to gain competitive edge because they can produce at the lowest cost. Large firms are able to attract competent and efficient laborers (Kim et al. 2004).

This kind of laborers are trained mitigate costs of production and thus improves performance.

Hill (2001) argues that low cost does not necessarily lead to low price this is because producers could offer competitive prices, to enjoy the advantages of higher margins than competitors. Low cost leader's gain competitive advantage by minimizing their overall costs. Campbell-Hunt (2000) posits that firms differentiate their goods and services to meet the needs of their customers by gaining a competitive advantage. This gives room for firms to concentrate on value that generates higher margins compared to its competitors.

The advantage of differentiation is that the producers should segment the market to target specific segments. This assists in achieving higher than average price. These costs involved in differentiation should be recovered from revenue generated sales (Jacome et al. 2002). Sadoulet (2005) states that differentiation can easily be copied by competitors. It is imperative to offer incentives to research and development to continuous improve. Some corporate target smaller market segments to offer special customer needs. This could entail identification of a need and developing products that fit customer needs. Firms might use differentiation as a strategy to enter an industry and produce similar but unique products and services (Thomson and Strickland, 2002).

Firms that enjoy economies of scale are able to achieve low cost advantages to a section of the market. Salavou (2013) notes that a focused strategy aims at gaining competitive advantage by targeting buyers in the niche market at lower prices than their competitors. This kind of strategy considerably attracts more customers by limiting its customers to a defined buyer segment (Beal, 2010). These strategies are common among large firms. Firms aim to differentiate in one or more target market segments.

To tap into the target market firms offer opportunities to provide products that are unique from their competitors to target more consumers. Salavou and Halikias (2009) argue that if firms want to achieve sustainable competitive advantage against their competitors; they must effectively implement competitive strategies.

To cope with competition and technological changes in the external environment, firms are adopting strategic alliances for a number of reasons like risk minimization and access to market. Strategic alliance is an agreement between two parties whereby the contracts lie on one end of the continuum. This might be characterized by less control and resource commitment. Firms should be careful while engaging themselves into strategic alliances because most alliances have failed in the past due to poor planning and forecasting. Firms that engage in strategic alliance are keen on the benefits of the alliances unlike the costs of running and maintaining the alliance. Thompson and Strickland (2008) have argued that firms cannot survive without due to the dynamic nature of the business environment. Organizations need to combine their diverse skills, resources and their capabilities to effectively deliver and succeed in the current business environment (Kim et al. 2004).

## 2.4 Competative Strategies Adopted by Faulu  Microfinance Bank

Competitive strategies are related to market penetration in a number of ways namely explained by the following empirical studies. A study by Sadoulet (2005) did a study on the relationship between competitive strategies and market penetration of commercial banks in Europe. The study used a longitudinal study using data for ten years. A semi-structured questionnaire was used to collect primary data and secondary was obtained from financial statements.

The study concluded that commercial banks that adopted competitive strategies highly penetrated the market compared to other banks. Through cost leadership strategy banks these banks attracted all classes of customers including high school students. This increased penetration and thus improved on their market share compared to their competitors. These findings are consistent with the arguments by Dondo and Oketch (2001) who indicated that organizations that adopt competitive strategies easily penetrate the market since they are able to position themselves competitively in a manner that attracts more customers. These firms are able to maximize on their core competence and thus are able to offer quality goods and services than their competitors since customers gain confidence and trust in them than their competitors. This in turn leads to increased sales and market share.

Lamb and Boyden (2011) investigated the challenges that inhibited firms from adopting competitive strategies. A comparative analysis was done between firms that adopted competitive strategies and challenges that faced firms that failed to implement these strategies. The challenges identified to hinder organizations from implementing strategies are lack of financial resources, high cost of borrowing funds, staff skills and external environmental needs, government regulation, and the complexity of coordinating all the firm's activities in pursuit of the agreed strategy. Porter (2008); Campbell-Hunt (2000) found out that the real challenge in implementing generic strategies was in recognizing all the supportive activities and putting them in place properly. Similarly, the results of the comparative analysis showed that firms that adopted competitive strategies recorded high market penetration rate compared to firms that were reluctant to adopt competitive strategies.

Bidley (2011) studied on the effect of generic strategies on increase in sales of manufacturing firms. A descriptive survey was used to find the relationship between the variables. Both primary and secondary data was used. A cross-sectional study was carried out and analysis was done using descriptive statistics. The results of the correlation analysis found that there was a positive relationship between generic strategies and increase in sales. This was brought about by an increase in customer turnover that was attributable to cost leadership that attracted many customers to purchase from the manufacturing firms. These findings are coherent with the observation that was made by Robinson (2001) who argued that generic strategies are used as tools to boost penetration in a competitive market environment. This is because firms that adopt competitive strategies utilize their core competencies and thus are able to offer the best in terms of quality and cost effectiveness this makes them position competitively in the market. Thus, they are able to win the largest pool of customers who in turn lead to increased sales and market share.

## 2.5 Chapter Summary

Chapter two has discussed literature review that means the literature that is relevant to the study. The theories supporting the study are resource based theory and resource dependency theory. Types of competitive strategies adopted by different organizations are discussed here. The strategies that are adopted by Faulu Microfinance largely are differentiation, focus strategy and strategic alliance.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This section describes the research methodology that was used to achieve the objective of this study. It consists of the research design, data collection and data analysis.

## 3.2 Research Design

A case study was used for this study. Kothari (2004) defines a case study as an in depth investigation of an institution or phenomenon. A case study was suitable for this study as it involves a complete observation of social unit emphasizing an in-depth rather than in breadth analysis. Cooper and Schindler (2005) a case study is important for analyzing information in a systematic way to arrive at logical conclusions that can guide recommendations.

## 3.3 Data Collection

The study was used primary data since its nature is qualitative. This kind of data was collected through an interview guide. Primary data was collected by interviewing three (4) departmental heads at Faulu, Kenya these departments are: marketing department, operations department and research and development department.

The interview guide contained two sections: section A contained question on the general information about Faulu microfinance bank, Kenya.

Section B contained questions on competitive strategies adopted by Faulu microfinance bank, Kenya to cope with competition.

A face to face interview was conducted with three senior management and departmental heads that are responsible for making strategic decisions on strategies to be adopted by the firm to maintain and sustain competitiveness and their effectiveness to market penetration.

### 3.4 Data Analysis

The data collected was analyzed by use of content analysis techniques since its nature in qualitative. Creswell (2009) content analysis is the systematic qualitative description of the composition of the object or material of the study. The information was analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy of the content analysis. This technique was used because it is helpful in making inferences by systematically and objectively identifying specific messages and then relating them with their occurrence trend.

Content analysis is a widely used qualitative research technique employed to interpret meaning from the content of text data. The data was compared with theoretical approaches cited in the literature review in order to establish areas of agreement and disagreement in order to ascertain the facts.

### 3.5 Chapter Summary

This chapter described methodology used to achieve the objective of the study. It consists research design where a case study was used. Primary data collection was used using interview guides where face to face interview were used to interview four head of departments. Content analysis was used for data analysis because data is qualitative.

# CHAPTER FOUR

# DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

The chapter presents analysis and discussion of findings on data collected from the field. The objective for the study was to establish the competitive strategies adopted by Faulu microfinance bank, Kenya and how they contribute to market penetration. The researcher managed to interview two departmental heads in the operations and marketing departments. The assistant finance director and the assistant head of research and development were interviewed.

## 4.2 Background Information

The chapter is divided into history of Faulu Microfinance bank and ownership of the bank as discussed below.

### 4.2.1 History of Faulu Microfinance Bank,Kenya

Faulu Microfinance Bank Limited is a limited liability company duly incorporated in Kenya under the Companies Act. It was founded in 1991 by Food for the Hungry International (FHI) a Christian organization as an NGO whose main objective was to provide credit to lower income households and micro-enterprises in Nairobi. It received funding from various donors, among them the Department for International Development (DFID) and the United States Agency for International Development (USAID), Faulu microfinance bank grew over the years to a level of near financial self-sufficiency.

In order to have more access to commercial funding, Faulu microfinance bank Kenya was incorporated into a private company in 1999. The company changed its name to Faulu Kenya Deposit Taking Microfinance (DTM) Limited in 2008 as part of the requirements to obtain the Deposit Taking Licence from the Central Bank of Kenya. In May 2009, Faulu became the first registered DTM in Kenya under the Micro-Finance Act and is regulated by the CBK.

Faulu microfinance bank is currently one of the top Deposit Taking MFIs in Kenya have successfully developed a platform aimed at banking the previously unbanked though a variety of savings, credit, micro insurance and mobile banking solutions. It has demonstrated a track record of enviable growth in its assets and loan book. Faulu Microfinance Bank has grown tremendously over the last 20 years from a single MFI office in 1991 to over 90 service outlets which include 27 banking branches in seven of the eight provinces in Kenya by end of 2011, with various strategic partnerships that make its financial services available countrywide.

In addition, has created a strong brand in the Deposit Taking Microfinance Industry and continues to strengthen its presence in the market in a deliberate effort to grow its banking business. Faulu envisions to be a market leader through diversified products, wider distribution networks, strategic partnerships and affordable pricing due to reduced costs and cheap deposits from its banking business.

### 4.2.2 Ownership of Faulu Microfinance Bank

Faulu Microfinance Bank ltd is registered in Kenya as a company with limited liability under the Company's Act. Its majority shareholder is Food for the Hungry, a Christian relief and development organization.

In April 2014, Old Mutual completed it acquisition of 67% of Faulu Kenya through a KSH 2.8 billion capital injection. The stock of Faulu Kenya is privately held with Old Mutual being the largest shareholder with 67% of the issued capital. As at 31st December, 2014, Faulu Microfinance Bank ltd had a total share capital and reserves of shs. 3,787,383,000.

### 4.3 Competitive Strategies adopted by Faulu Microfinance Bank

This section presents information on the competitive strategies adopted by Faulu Microfinance Bank ltd to cope with competition in banking industry in Kenya. All the interviewees noted that Faulu Microfinance Bank ltd has adopted strategies to enhance its competitive advantage. Most interviewees indicated that in articulating the bank strategic plan, they identified a clear value proposition to their clients that will guide the Banks competitiveness. The following subsections present reply from the interviewees:

#### 4.3.1 Differentiation Strategy

The interviewees indicated that they use a combination of cost leadership and differentiation strategies to compete in the market. The strategy of differentiation was found to be one of the key strategies used by Faulu microfinance bank to achieve competitive advantage. The interviewees indicated the use of differentiation strategies to compete in the market. According to Porter (2004), a firm can gain competitive advantage if it is able to create value for its buyers.

According to the interviewees, Faulu microfinance Kenya seeks to achieve industry wide recognition and superior products and services through differentiation approach. The interviewees further noted that differentiation strategy is useful whenever buyer’s needs and preference are too diverse to be fully satisfied by standardized products or by sellers with identical capabilities.

### 4.3.2 Cost Leadership Strategy

Most of the interviewees indicated, the bank applies low prices through pricing below the competitors and keeping lower overheads than the competitors.

Also, the interviewees mentioned that the bank employs cost leadership strategy through good management of their overhead costs, ensuring that they employ competent employees, and giving good training to its staff in customer care and product knowledge issues to ensure that they understand their customer and product well in order to enforce customer satisfaction and ensure customer loyalty to the products and services offered by the bank. If a firm wishes to pursue the strategy of cost leadership, it has to be the low cost producer. A firm may gain cost advantage through economics of scale, proprietary technology, cheap raw material, among others. The strategy of differentiation involves offering a different product, a different delivery system, or using a different marketing approach. And it is up to the management of the company to decide which factors it wants to emphasize in order to gain competitive advantage (Porter, 1987).

### 4.3.3 Focus Strategy

A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market. On the other hand, a focus strategy based on differentiation depends on there being a buyer segment that demands unique product attributes.

In the focus strategy, a firm targets a specific segment of the market (Porter, 1996). Adoption of focus strategy by Faulu microfinance bank have contributed to intense competition in the financial sector where even commercial banks have established branches in areas that microfinance banks have been operating. Despite their entry into the market it is still very difficult for commercial banks to attract customers because microfinance finance banks offer more competitive products to suite customer needs for example better credit terms.

The interviewees noted that Faulu microfinance bank focused on a particular segment of the market which is the urban and rural poor majority who were financially excluded before. The interviewees indicated that the focus strategy emphasise that firms should target a segment or a small market; which financial inclusion is achieved by targeting the under-developed areas or unbanked markets. Microfinance institutions target a specific segment of the market that is financially excluded. Customer focus strategy has been able to include the financially excluded populations who are mostly women and youth in emerging markets.

### 4.3.4 Strategic Alliances

Strategic alliances are agreements between companies (partners) to reach objectives of common interest. Strategic alliances are among the various options which companies can use to achieve their goals; they are based on cooperation between companies (Mockler, 1998). Such collaborations take the form of strategic alliances, mergers and acquisitions, licensing, franchising among others. Faulu Microfinance Bank has grown tremendously over the last 20 years with the help of various strategic partnerships that make its financial services available countrywide.

In April 2014, Old Mutual completed its acquisition of 67% of Faulu Kenya through a KSH 2.8 billion capital injection.

The interviewees indicated that the strategic partnership gives Old Mutual a strong muscle in the growing micro-finance segment that remains a growth area for banks and insurance companies. In addition, it gives rise to synergies, that is, financial strength and branch network expansion.

The interviewees unanimously agreed that the bank was striving to achieve this through establishing a wider branch network, competitive saving products to increase its penetration and expand its portfolio of customers.

### 4.4 Discussion of Findings

The findings revealed that Faulu had adopted formal strategies that were set to achieve its strategic goals. From the findings it was revealed that the banking industry was competitive and dynamic and strategy was seen as an essential tool for coping with this kind of competition in order to survive and cope with the changes in the environment.

The interviewees indicated that the top management was responsible for strategy formulation. This included the Chief Executive Officer (CEO) and the departmental heads. These were the key decision makers of the bank since no decision was arrived without extensive consultation from them. Strategy implementation was mainly executed by the lower level employees and the departmental heads with the support and consultation of the top management. The top management gave directions to the departmental heads on strategy was to be implemented.

Then, the departmental heads supervised strategy implementation to ensure that the guideline was followed as per the set strategic plan.

Differentiation strategies were found to be one of the key strategies used by Faulu bank to achieve competitive advantage. According to Porter (2004) differentiation strategy targets a broad mass market with an objective of creating a product which is perceived to be unique by customers, for example through design, image, technology, customer service and dealer network. The study findings found that Faulu banked on unique areas of business; especially products or services distinctly that are different from those of competitors as well as products or services that target niche market or narrow customer segment. For example their credit terms and polies are more flexible compared to most commercial banks. Faulu bank focused on a particular segment of the market which is the urban and rural poor majority who were financially excluded before. These findings agree with Mutai (2012) who also found that differentiation strategies were the most adopted in the microfinance sector. These findings are consistent with the findings by Muriungi (2014), who found that DTMs have embraced product innovation while management support of competitive strategies and information intensity influence organization adoption of product innovation mostly. Improved and radically changed products are regarded as particularly important for long-term growth of DTMs while products are updated and completely renewed for retaining strong market presence to a great extent. The study findings agree with Kasanga (2013), study, who concluded that differentiation strategies adopted by DTMs were meant to build competitiveness and to a greater extent in areas such as products, service, personnel and image.

Kasanga (2013) concludes that differentiation is a major strategy employed to a greater degree in building competitiveness among the DTMs.

Adoption of focus strategy by Faulu bank have contributed to intense competition in the financial sector where even commercial banks have established branches in areas that microfinance banks have been operating. Despite their entry into the market it is still very difficult for commercial banks to attract customers because microfinance finance banks offer more competitive products to suite customer needs for example better credit terms. Nyongesa (2012) argue that firms that use focus strategy often enjoy a high degree of customer loyalty which discourages other firms from competing directly. Most microfinance banks in Kenya are able to win loyalty from most of their customers this is because they have been able to strive towards a customer driven approach in their product development. This is in line with Onaolapo and Odetayo (2012) who concur that the focus strategy emphasise that firms should target a segment or a small market; which financial inclusion is achieved by targeting the under-developed areas or unbanked markets. Microfinance institutions target a specific segment of the market that is financially excluded. The findings show that customer focus strategy has been able to include the financially excluded populations who are mostly women and youth in emerging markets.

Faulu microfinance bank is a constituent of Old Mutual group of companies. This is a form of strategic alliance that has enabled Faulu to grow having the customer base of the Old Mutual. Kim et al. 2004 confirms this in their study that: Organizations need to combine their diverse skills, resources and their capabilities to effectively deliver and succeed in the current business environment.

The interviewees revealed that Faulu recruited competent and efficient staff to effectively offer quality services. Most of its employees were masters and degree holders from recognized institutions in business. With this team Faulu was able to achieve efficiency and excellent customer service management which significantly contributed to reduced operational costs. This enabled the bank to gain competitiveness against its rivals. The findings revealed that with low cost strategy, the Faulu was able to secure a competitive advantage by serving low income customers in the target market niche at a low cost than its rivals. These findings are consistent with the arguments of Porter (2004) who argued that low cost strategy has considerable attraction when a firm lower costs significantly by limiting its customer base to a well-defined buyer segment. Focused low cost strategies are fairly common.The review of the study findings found strategy highly contribute to effective control of resources which enables the bank in achieving superior performance.

## 4.5Chapter Summary

This chapter entails data analysis, results and discussions of findings of the data collected. Background of Faulu Microfinance Bank has been discussed at length on how it is a constituent of Old Mutual, ownership and how it has grown to its current position. Competitive strategies adopted by Faulu Bank are differentiation, cost leadership, focus strategy and strategic alliance.

# CHAPTER FIVE

# SUMMARY , CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of key findings; conclusions drawn from the findings described and recommendations drawn. The conclusions and the recommendations were made in an effort to address the objective of this study which was to determine the competitive strategies adopted by Faulu, Kenya. The section also covers the recommendations, the limitations of the study and suggestions for further research. This is presented below:

## 5.2 Summary

The objective of this study was to determine the competitive strategies adopted by Faulu microfinance Kenya to cope with competition in banking industry in Kenya. From the findings product differentiation and cost leadership are some of the strategies adopted by the bank in response to the competitive environment. Regarding differentiation strategy, all the interviewees emphasized on the development of a strong branch network, on investment in technology to differentiate services and products, on providing a broad range of products/services to customers, and on the development of new products and services.

Differentiation strategies were found to be one of the key strategies used by Faulu bank to achieve competitive advantage. The study findings reveal that Faulu bank offer quality service, unique products and services for which customers are willing to pay more.

The study findings found that Faulu bank focused on unique areas of business; especially products or services distinctly that are different from those of competitors as well as products or services that target niche market or narrow customer segment. For example their credit terms and polices are more flexible compared to most commercial banks. Faulu bank focused on a particular segment of the market which is the urban and rural poor majority who were financially excluded before.

The findings indicate that Faulu offered competitive packages in terms of loans and credit terms and conditions compared to most of its competitors. This in turns attracts new customers and retaining existing ones making it easier for the bank to outperform its competitors in terms and profitability and market share.

### 5.3 Conclusion

The study concludes that Faulu Kenya is aware of the competition in the banking industry and has taken measures to ensure that the bank remains competitive. The competitive strategies are in areas such as differentiation , Cost leadership and market focus strategy. In addition, we concludes that the differentiation strategy is more appropriate for a microfinance bank since it seeks to serve a market that has been ignored by the mainstream financial institutions. The findings conclude that service differentiation strategy is mostly used by Faulu bank to reach to the low income earners.

The study also concludes that adoption of focus strategy enables microfinance banks in Kenya to be able to win loyalty from most of their customers this is because they have been able to strive towards a customer driven approach in their product development. Faulu Kenya is confident these initiatives and changes will have positive impact and help the bank achieve the planned business growth which in turn will help realize the goal of transforming Faulu Microfinance Bank Ltd into a leading bank in the coming years.

### 5.4 Implications and Policy Recommendation

The study recommends that microfinance banks should adopt cost leadership strategy since now they have a relevant experience in the market. Some of the oldest microfinance banks have started enjoying economies of scale and can now offer good and services at a cheaper cost. This will lead to increased market penetration.

Onother recommendation is that for market focus strategy ,Faulu Kenya should gain in-depth insights about their customer portfolio. The knowledge on customer will allow the bank to maximize revenue potential, increase customer retention, and boost prospective customers. The bank can use a mix of many tools and methods to measure consumer insight and both its position in the market and the positions of the competitors. Bank should consider human resource management as a mean to gaining competitive advantage.

### 5.5 Limitations

The limitation faced by the researcher during data collection was that the managers were too busy and thus the researcher had to interview their deputies who to some extent might not have the same experience to give more detailed information that the researcher was looking for. Also, Some interviewees were of the opinion that some of the information sought was confidential and hence they did not provide adequate feedback. The other challenge that was faced by the researcher was time and cost constraints. Booking, scheduling and preparation for the interview process consumed a lot of time.

Lastly, the challenge faced by the researcher was that there was no control over the data collection; some of the interviewees were not willing to be interviewed while others pretended to be very busy since they thought the process was non-paying and therefore a waste of time since they had to do it at the expense of their office work. A few of the interviewees were still hesitant even after producing the letter from the university acknowledging that the information was solely for academic purposes only. The interviewer took a lot of time to convince them to accept the request.

### 5.6 Suggestions for Further Research

The study was limited Faulu bank only; future researchers should carry out a study on the competitive strategies adopted by microfinance banks in Kenya to boost market penetration. Findings can then be compared and conclusion drawn based on concrete facts.

The study recommends for further study on the effect of differentiation strategies on sustainable competitive advantage of microfinance banks in Kenya. The study should focus on the product, market, personnel and service differentiation.

The study recommends for further study on the impact of focus strategies on the sustainable competitive advantage of microfinance banks in Kenya. This study should focus on the impact on specific variables of sustainable competitive advantage for example customer focus.

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# APPENDICES

## APPENDIX I: INTERVIEW GUIDE

### Section A: Faulu Background Information

(i) How is Faulu owned?

(ii) How long has it been in operation?

(iii) What services and products does Faulu offer?

### Section B: Strategies for Achieving Competitive Advantage

1. Has Faulu adopted any formal strategies for achieving its objectives?
2. Who is responsible for formulation and implementation of such strategies?
3. Do you think such strategies are geared towards earning competitive advantage?
4. Does the bank compete head on for market share in the banking industry?
5. Who are the Faulu's competitors?
6. What is the nature of competition that Faulu faces?
7. What services that Faulu offers that differentiate it from its competitors?

8. What specific strategies has the bank put in place to withstand such competition?

9. How have these strategies contributed towards achieving competitive advantage?

10. How does a competitive strategy at Faulu influence company capabilities utilization?

11. How does the implementation of differentiation advantage influence your Faulu i in outperforming its competitors in the market?

12. How has the attainment of competitive advantage influence Faulu in outperforming it competitors in the market?

13. Does strategies implemented by Faulu influence effective control of resources achieving superiority in performance over it competitors?

14. How does competitive advantage at Faulu influence market penetration hence high profits, increased sales and customers compared to its competitors in the banking sector?

15. How does competitive advantage influence Faulu in achieving market leadership in the banking industry?

16. What are the business strategies implemented by Faulu that have led to the attainment of high market share the banking industry?

17. What is the role of competitive advantage in achieving market leadership in the banking sector in Kenya?

18. Have the differentiation strategies adopted by your company led to offering of superior banking products at a low cost than its competitors in the markets?