Journal of
Business and Strategic Management
(JBSM)

AN ANALYSIS OF THE EFFECT OF COMPETITIVE STRATEGIES ON PERFORMANCE: A SURVEY OF MFIS IN KENYA

Priscilla Wanjiru Kung'u and Mr. Vincent Machuki

CARI Journals

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016
www.carijournals.org

AN ANALYSIS OF THE EFFECT OF COMPETITIVE STRATEGIES ON PERFORMANCE: A SURVEY OF MFIS IN KENYA

[1*] Priscilla Wanjiru Kung'u
[1*]Post graduate student: Kenya Methodist University
*Corresponding Author's Email: shiropk@gmail.com

[2] Mr. Vincent Machuki
Lecturer: Kenya Methodist University

Abstract

Purpose: The purpose of the study was to investigate the competitive strategies being adopted by MFIs and the effect of such strategies on firm performance

Methodology: The study adopted a descriptive survey research design. The targeted population of the study was derived from the 41 members of Association of Microfinance Institutions. A census was carried out. The questionnaire was the main data collection instrument due to its convenience and ease of use. The data will be analyzed through both descriptive statistics and regression statistics.

Results: The findings of the study indicated that MFIs used cost leadership competitive strategy, differentiation strategy, focus strategy and value disciplines. Findings indicated that there was a relationship between competitive strategies and the performance of MFIs.

Unique contribution to theory, practice and policy: It was recommended in the study that the MFIs should continue the use of the competitive strategies as they were impacting positively to their performance. The suggested area of research was to determine most preferred dominant competitive strategy being used by MFIs and also to ascertain the truth of the "being split in the middle phenomena" advocated by porter (1998).

Keywords: *competitive strategies, micro finance institutions*

1.0 INTRODUCTION

The environment in which firms operate in is highly dynamic and competitive. A host of external factors influence a firm's choice of direction and action and, ultimately, its organizational structure and internal processes. These factors, which constitute the external environment, are categorized as those in the remote, industry and operating environment. The remote environment comprises of factors that originate beyond, and usually irrespective of, any single firm's operating situation- political, economic, social, technological and ecological factors. Factors that more directly influence a firm's prospects originate in the environment of its industry, including entry barriers, competitive rivalry, availability of substitutes and the bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation-competitive position, customer profiles, suppliers, creditors These three sets of factors provide many of the challenges that a particular firm faces in its attempt to attract and acquire needed resources and to profitably market its goods and services, (Pearce & Robinson, 2007).

A firm operating in any industry must exhibit appropriate strategic behavior in order for them to remain competitive in a dynamic and competitive environment. There is therefore need for a firm to understand its external environment in totality and from this adopt appropriate strategies that will not only enhance its performance but give it sustained competitive advantage and maximize stakeholder value. According to Porter (1996), strategy is about achieving competitive advantage through being different – delivering a unique value added to the customer, having a clear and enactable view of how to position yourself uniquely in your industry. To enact a successful strategy requires that there is fit among a company's activities, that they complement each other, and that they deliver value to the firm and its customers. While there is much debate on substance, there is agreement that strategy is concerned with the match between a company's capabilities and its external environment. Analysts disagree on how this may be done. Kay (2000) argues that strategy is no longer about planning or 'visioning' – because we are deluded if we think we can predict or, worse, control the future – it is about using careful analysis to understand and influence a company's position in the market place. Hamel (2000) also argues that the best strategy is geared towards radical change and creating a new vision of the future in which you are a leader rather than a follower of trends set by others.

Porter (1996) defines competitive strategy as how a company competes in a particular business. Competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. Further, Porter (1998) argues 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. These are cost leadership strategies, differentiation strategies and focus strategies. Treacy and Wiersema, (1993) also proposed an alternative approach to Porter's Generic strategies through the value disciplines. They believe that strategies must center on delivering superior customer value through one of three value disciplines: operational excellence, customer intimacy or product leadership (Pearce & Robinson, 2007). Competitive strategies adopted by a firm should result in competitive advantage. Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's costs of creating.

According to ATC Consortium (2009), a microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

Currently there are forty one (41) Micro Finance Institutions' in Kenya registered under the Association of Micro Finance Institutions' (AMFI) with six new ones awaiting appraisal before end of 2010, AMFI report (2010). The Association of Microfinance Institutions was registered in 1999 under the societies Act as an umbrella organization to represent the Microfinance institutions operating in Kenya. AMFI has been playing a vital role in promoting the growth of microfinance in Kenya in addition to supporting MFIs to build capacity in order to overcome some of the challenges facing the sector. 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. AMFI membership serves over 4 million clients with an outstanding loan portfolio of over USD 303 million (AMFI, 2009).

Recent trends indicate the emergence of even more informal micro finance institutions especially in the rural areas where the majority of the unbanked population reside. With the costs of banking on the rise, even those with bank accounts are opting for the cheaper MFIs which further increase competition for the MFIs. Commercial banks are also coming up with new strategies to combat this competition. For example, Equity bank is in the process of introducing agency, a model that aims at providing banking services through agents to the very remote areas of Kenya where it is not only not financially viable to set up a branch, but also further penetrate the rural areas accounts. This model will further enhance competition for the MFIs.

1.1 Problem Statement

According to Porter (2008), the modern organization operates in a highly competitive and dynamic environment. Scholars and practitioners alike have attributed the dynamic environment to the observed constant change in the business environment. For a firm to effectively compete in such a dynamic and competitive environment, it needs to put in place a competitive strategy that will ensure that it maximizes stakeholders' value. Put in another way, the modern firm cannot afford to sit back and succeed by chance. Rather it has to take steps in formulating and implementing strategies that ensure its survival and prosperity.

Currently, the exponential growth of MFIs (informal and formal) from 3460 in 2003 to over 7000 shows a sectoral growth rate of over 100% (ATC consortium, 2009). The growth in the number of MFIs has also been accompanied by intense competition among the MFIs themselves and between MFIs and the mainstream banking sector. The intense competition in the microfinance sector has led to a decrease in the interest rates offered by MFIs. Evidently, this depicts the adoption of an appropriate competitive strategy as MFIs are still able to break even or even post a good return hence ensuring their sustainability. One may also argue hypothetically that the players in the MFI sector could also be employing other competitive strategies in order to counter the intense competition among themselves as well as between them and the mainstream banking industry. For instance, MFIs offer loans at an annual interest rate of 12% on a reducing balance basis. On the other hand, majority of mainstream banks offer unsecured personal loans at rates above 18% ignoring other charges such as loan appraisal fees.

This study sought to explore the competitive strategies being used by MFIs in Kenya to beat the cut throat competition.

1.2 Research Objectives

i. To determine the short and long run relationship between petroleum consumption and economic growth.
ii. To determine whether MFIs in Kenya use cost leadership competitive strategy
iii. To determine whether MFIs in Kenya use differentiation competitive strategy
iv. To determine whether MFIs in Kenya use focus competitive strategy
v. To determine whether MFIs in Kenya use value disciplines competitive strategy

2.0 LITERATURE REVIEW

Pearce and Robison (2000) agree with Thompson and Strickland's (1998) definition of strategy as the management game plan, but they further argue that by strategy managers mean future oriented plans for interacting with the competitive environment. Ansoff (1988) on the other hand defines competitive strategy as the distinctive approach, which a firm uses or intends to use to succeed in the market. He further states that formulation of competitive strategies include consideration of four factors: the firm's strengths and weaknesses, industries opportunities and threats, personal values of key implementations and broader societal expectations. Competitive strategies comprise of both offensive and defensive actions. Research has shown that in the face of competition firms adopt various competitive strategies in order to survive in the market.

Porter (1998) 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. These are cost leadership strategies, differentiation strategies and focus strategies. Competitive strategies adopted by a firm should result in competitive advantage.

Porter's Generic Strategies

Many planning experts believe that a 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. This means that a long term or grand strategy must be based on a core idea about how the firm can best compete in the marketplace. This core idea is referred to as generic strategy. Many planners believe that any long term strategy should derive from a firm's attempt to seek a competitive advantage based on Porter's three generic strategies. (Pearce & Robinson, 2000)

Porter (1998) calls his strategies generic because they are not firm or industry depended. They can be applied to a firm in any industry. These generic strategies are cost leadership, differentiation and focus. They are applied at business unit level.

Table 1: Porter's Generic Strategies

	Advantages	
Target Scope	Low Cost Leadership	Product Uniqueness
Broad (Industry wide)	Cost Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (Low Cost)	Focus Strategy (Differentiation)

Source: Porter (1998)

A 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 (1998) states that characteristics of cost leadership strategy include low level of differentiation, aim for average customers; use of knowledge gained from the past experience and the addition of new products only after the market demands them. Thompson and the Strickland (1998) agree with Porters view on costs leadership's strategy and state that this strategy calls for being the low cost producer in an industry for a given level of quality.

A differentiation strategy is one in which a firm offers products or services with unique features that customers value. The value added by the uniqueness commands a premium price. According to Coulter (2002) the key characteristics of differentiation strategy is perceived quality whether real or not. This may be through superior product design, technology, customer service or other dimensions. 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 (Pearce and Robison, 2000).

Focus strategy involves targeting a particular market segment. This means serving the segment more efficiently and effectively than the competitors. Therefore focus strategy can be of cost leadership or differentiation aimed at a narrow market segment. Porter (1998) states 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 given a firm competitive advantage. Customer's loyalty also protects a firm from threat of new entrants and threat of substitute product. The firm adopting focus strategy can easily stay closer to its customers and effectively monitor their needs.

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 cost. These firms do not enjoy lower cost advantages arising from economies of scales. Changes in customers 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 the firms pursuing focus strategy. Finally, other focuses may be able to curve out segments that they can serve even well (Pearce & Robison, 2000).

Treacy and Wiersema (1993) have modified Porter's three strategies to describe three basic "value disciplines" that can create customer value and provide a competitive advantage. Value disciplines as proposed by Treacy and Wiersema, (1993) consist of operational excellence, customer intimacy and product leadership. According to Pearce and Robinson (2000), companies that specialize in one of these disciplines, while simultaneously meeting industry standards in the other two, gain a sustainable lead in their markets. This lead is derived from the firm's focus on one discipline, aligning all aspects of operations with it. Having decided on the value that must be conveyed to customers, firms understand more clearly what must done to attain the desired results. After transforming their organizations to focus on one discipline, companies can concentrate on smaller adjustments to produce incremental value. To match this advantage, less focused companies require larger changes than the tweaking that discipline leaders need.

Operational excellence is a specific strategic approach to the production and delivery of products and services. A company that follows this strategy attempts to lead its industry in price and convenience by pursuing a focus on lean and efficient operations. Companies that employ operational excellence work to minimize costs by reducing overhead, eliminating intermediate production steps, reducing transaction costs, and optimizing business processes across functional and organizational boundaries. The focus is on delivering products and services to customers at competitive prices with minimal inconveniences. Firms that implement this strategy typically restructure their delivery processes to focus on efficiency and reliability, and use state of the art information systems that emphasize integration and low cost transactions (Treacy & Wiersema, 1993).

Companies that implement a strategy of customer intimacy continually tailor and shape products and services to fit an increasingly refined definition of the customer. Companies' excelling in customer intimacy combines detailed customer knowledge with operational flexibility. They respond quickly to almost any need, from customizing a product to fulfilling special requests to create customer loyalty. Customer-intimate companies are willing to spend money now to build customer loyalty for the long term, considering each customer's lifetime value to the company go to great lengths to ensure customers satisfaction with low regard for initial costs. Companies engaged in customer intimacy understand the difference between profitability of a single transaction and the profitability of a lifetime relationship with a single customer. The firm's profitability depends in part on maintaining a system that differentiates quickly and accurately the degree of service that customers require and the revenue their patronage is likely to generate. Firms using this approach recognize that not every customer is equally profitable. They stress flexibility and responsiveness. They collect data from many sources. Their organizational structure emphasizes empowerment of employees close to customers and management systems recognize and utilize such concepts as customer lifetime value, and norms among employees are consistent with a " have it your way" mind set (Treacy & Wiersema, 1993).

Companies that pursue this discipline strive to produce a continuous stream of state of the art products and services. Three challenges must be met to attain that goal. These include, creativity which is recognizing and embracing ideas usually originating outside the company. Second, innovative companies must commercialize ideas quickly. Thus, their business and management processes need to be engineered for speed. Product leaders relentlessly pursue new solutions to problems. Finally, firms utilizing this discipline prefer to release their own improvements rather than wait for competition to enter, Firms pursuing this value discipline also strive for continuous improvement. Product leaders also avoid bureaucracy because it slows down commercialization of their ideas. The strength of product leaders lies in reacting to situations as they occur. Shorter reaction times serve as an advantage in dealing with the unknown. Product leaders also act as their own competition. These firms continually make the products and services they have created obsolete. They believe that if they don't develop a successor, their competitors will (Pearce & Robinson, 2003).

3.0 RESEARCH METHODOLOGY

A descriptive survey design was used in conducting the study. All the forty one (41) MFIs registered with AMFI were surveyed. The study used both primary and secondary data. Primary data was collected through the administration questionnaires while secondary data was obtained through the MFI's financial records, annual reports and strategic/business plans. After data collection the researcher gathered the completed questionnaires which was edited for completeness to ensure accuracy and consistency of the information obtained in preparation for analysis which was both quantitative and qualitative. The principal computer package was Excel though Statistical Package of Social Sciences (SPSS) was also used to a minimal extent. Under quantitative analysis, descriptive statistics of mean, percentages, frequencies and cross tabulation was employed. Inferential statistics employed regression as a technique to draw out the relationship between the dependent and independent variables.

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016
www.carijournals.org

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The successful response rate for the study was 73%. The unsuccessful response for the study was 27%. According to Mugenda and Mugenda (2003), a response rate with 30 or more successful units is sufficient for data analysis.

Table 2: Response Rate

Category	Frequency	% response
Successful response	30	73%
Unsuccessful response	11	27%
	41	100%

The majority of the respondents, 56%, indicated that the MFI had been in operation for 7 to 8 years. The rest of the findings were given below

Table 3: Number of Years in Operation

Number of years in operation	Response	% response
less than 5 years	2	7%
5 to 6years	5	17%
7 to 8 years	17	56%
9 to 10years	4	13%
0ver 10 years	2	7%
	30	100%

According to the study findings, the majority of the MFIs, 74%, were wholly local. 3% were wholly foreign while 10% were individually owned. Meanwhile, 13% were group owned.

Table 4: Ownership Structure

Ownership structure	Response	% Response
Wholly local	22	74%
Wholly foreign	1	3%
Individual	3	10%
Group ownership	4	13%
	30	100%

4.2 Perceived Competition

The majority of MFIs in the study perceived competition as very stiff. This was supported by a response rate of 74%. 13% perceived the competition as stiff, 10% perceived competition as fairly stiff, 3% perceived competition as not stiff.

Table 5: Perceived Competition facing MFIs in Kenya

Perceived competition facing MFIs in Kenya	Response	% Response
Stiff	4	13%
Fairly stiff	3	10%
Not stiff	1	3%
Very stiff	22	74%
Not sure	0	0%
	30	100%

The majority of the MFIs, 53%, indicated that they were facing competition from other MFIs. 27% indicted that they were facing competition from banks, while13% were facing competition from shylocks. 7% were facing competition from other sources. The respondents further explained that banks were now offering microfinance products, an area, which was the mainstay of MFIs. For instance, Equity bank microfinance program focused on the low income segment by offering products such as “jijenge biashara loan” products, agriculture loan products for small scale farmers among others. Standard Chartered bank, Barclays bank, Cooperative bank and Family bank also had introduced the SME banker program, which is a microfinance initiative. In addition, other MFIs tended to imitate the products that the MFI introduced in to the market.

Table 6: Major Competitors

Major competitors	Response	% Response
Banks	8	27%
MFIs	16	53%
Shylocks	4	13%
Others	2	7%
	30	100%

The majority of the MFIs, 67%, indicated that they had a perceived competitive advantage over other competitors to very great extent. The rest of the findings are given below.

Table 7: Perceived Competitive Advantage over Competitors

Perceived competitive advantage over competitors	% Response	Response
To a very great extent	20	66%
To a great extent	5	17%
To some extent	3	10%
To a little extent	2	7%
To no extent at all	0	0%
	30	100%

According to the study, the majority of the MFIs, 80%, indicated that they were aware of competitive strategies undertaken by competitors. The respondents further explained that the majority of the competitors were using cost leadership and differentiation competitive strategy and quoted Equity bank and Barclays as the front runners in this strategy. Other competitors used focus strategy by offering their segments to the youth, women (for instance the "diva" product by Standard chartered bank).

Table 8: Competitive Strategies undertaken by Competitors

Competitive strategies undertaken by competitors	Response	%Response
Yes	24	80%
No	6	20%
	30	100%

The majority of respondents, 67%, indicated that the competitor's actions had to a very great extent influenced the reactions of the MFIs. The respondents further explained that the reactions were in form of interest rate reduction, strategic partnerships with other related and non-related firms, for instance MPESA service provider Safaricom among others, diversifying in to other products and differentiating their products.

Table 9: Extent of Reaction to Competitor's Actions

Extent of reaction to competitor actions	Response	%response
To a very great extent	20	67%
To a great extent	5	17%
To some extent	3	10%
To a little extent	2	7%
To no extent at all	0	0%
	30	100%

4.3 Competitive strategies

4.3.1 Cost Leadership

The majority of the respondents, 73%, strongly agreed with the statement that they had expanded their operational branches. The finding implies that they incurred costs related to achieving economies of scale through expansion. The finding is consistent with those of Pearce and Robison (2000) which state that a 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.

The majority of the respondents, 70%, strongly agreed with the statement that the firm had increased its number of employees. This finding implies that MFIs were keen to expand their services and hence achieve cost leadership though economies of scale. The majority of the respondents, 63% strongly agreed with the statement that the firm had purchased more computer hardware and software and increased their expenditure on internet connectivity respectively. The finding implies that MFIs have realized the importance of using technology to lower operational costs. For instance, the ability of Equity bank to serve its massive and rapidly growing customer base is centered on its information technology system which consists of an oracle supported system and a strong core banking software solution. Furthermore, internet connectivity offers a firm alternative but cheaper distribution channels hence the cost advantage.

The majority of respondents 83% strongly agreed that they had increased their investment on employee training and invested in a business intelligence system respectively. The finding implies that the firms are keen to achieve cost leadership through the learning curve effect by investing in knowhow. The majority of the respondents, 80%, strongly agreed with the statement that they had cheaper sources of funds from NGOs and the Government. For instance, the Government of Kenya disseminates the funds meant for the youth programs and the women programs through microfinance institutions such as equity bank, Kenya Women's Finance Trust and Jamii Bora. In addition, majority of NGOs participate in economic and social development through appointed Microfinance institutions. The access of cheap funds by MFIs translates to cost leadership advantages.

The majority of respondents, 77%, indicated that they have the geographical advantage as their offices are located near their customers. For instance, Most MFIs have opened branches in low income areas of the society. The suitable location of MFI offices near customers who live in low income areas implies that the rental costs of those offices are also low. This further translates into a cost leadership advantage.

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016

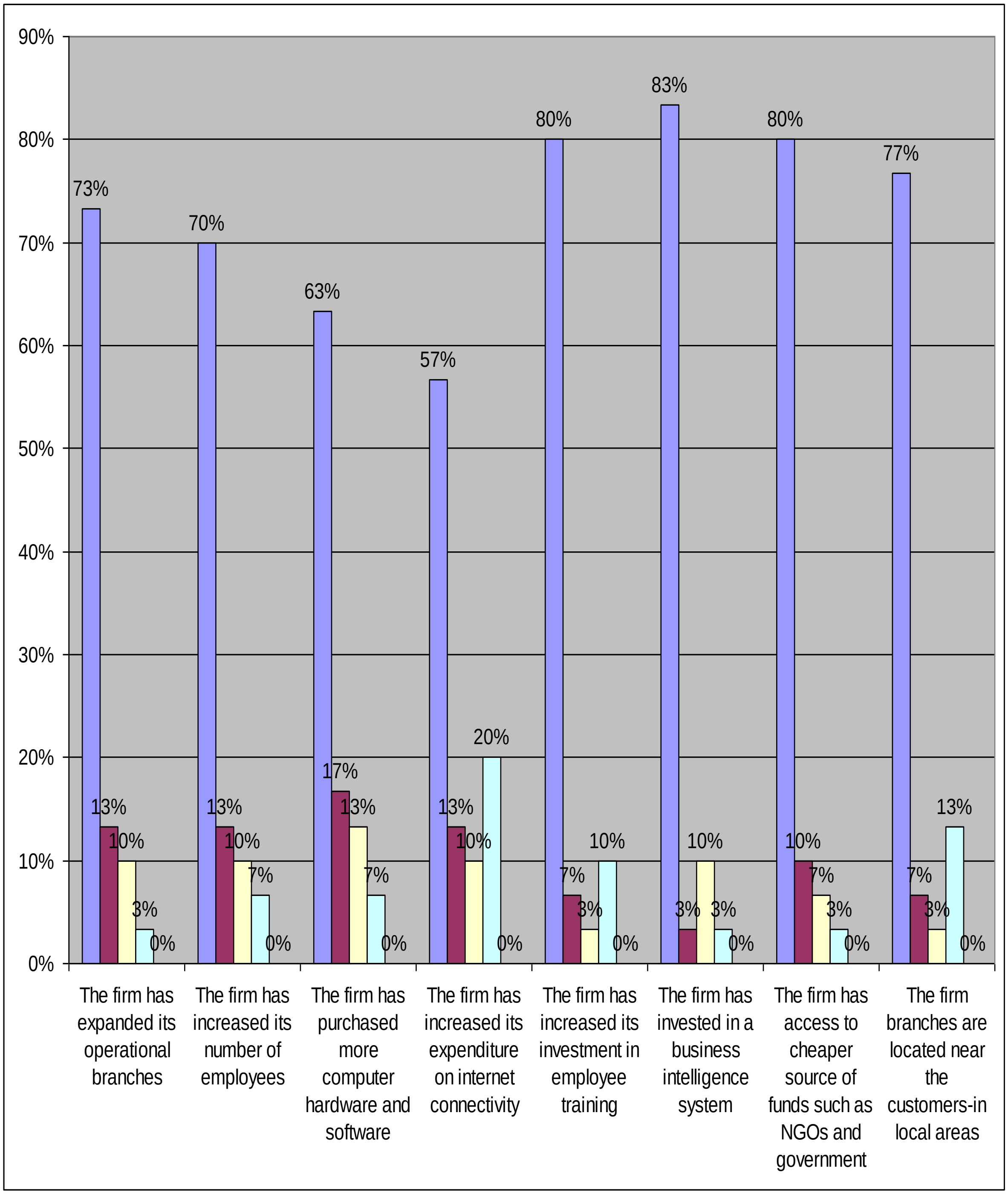

Figure 1: Cost Leadership

The majority of respondents, 67%, indicated that their interest rates were very favorable compared to banks and other MFIs. The finding implies that the majority of firms employing cost leadership strategies had been able to pass the cost advantages to clients/customers through low interest rates. The finding is also consistent with Porter (1998).

Table 10: Comparability of Interest Rates

How favorable are your interest rates and other charges compared to banks and other MFIs?	Response	% response
Very favorable	20	67%
Favorable	3	10%
Unfavorable	7	23%
	30	100%

4.3.2 Differentiation Strategy

The majority of respondents, 77%, indicated that the level of customization of MFI products was very high. The finding implies that MFIs used a differentiation competitive strategy in order to effectively compete with other MFIs. The finding agrees with Coulter (2002) who argues that the key characteristics of differentiation strategy are perceived quality whether real or not. This may be through superior product design, technology, customer service or other dimensions. The advantage of differentiation strategy is that the perceived quality insulates a company from threats from any of the five forces that determines the state of competition in an industry

Table 11: Level of Customization of Products

How would you rate the level of customization of the MFI products?	Response	% response
Very high	23	77%
High	3	10%
Low	4	13%
	30	100%

The majority of respondents, 73%, indicated that the degree of complexity when applying for a loan was low. This implies that MFIs are using the low degree of complexity takes a differentiation element to attract and retain customers. For instance, majority of MFIs do not insist on a particular type of collateral but rather allow even household items such as furniture and matrimonial beds to be used as collateral. For example, Equity bank was the front runner in the low complexity when applying for loans. Other products that show how the degree of complexity in applying for a loan can be reduced include the Equity bank salary overdraft which is disbursed 3 hours immediately after application.

Table 12: Degree of Complexity

How Would You Rate The Degree Of Complexity (Stringent Requirement) When Applying For Loans?	Response	% Response
Very High	3	10%
High	5	17%
Low	22	73%
	30	100%

The majority of respondents, 70%, indicated that to a very large extent, the MFIs had engaged in consumer marketing. The finding implies that the MFIs use consumer marketing as a differentiation strategy in order to achieve customer loyalty. By extension, loyal customers

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016

enable firms to weather stiff competitions especially where such competition takes the form of price wars.

Table 13: Consumer Marketing

To what extent has the MFI engaged in consumer marketing?	Response	% response
Very large extent	21	70%
Large extent	3	10%
Low extent	6	20%
	30	100%

The majority of MFIs had engaged in alternative distribution channels such as Mpesa in an effort to differentiate their products. For instance, majority of MFIs have formed strategic partnerships with money transfer service providers' safaricom, Zain, Western union and Money gram. In particular, MFIs are now disbursing their loans through Mpesa and also allow repayment through Mpesa. MFIs that offer micro insurance and micro health programs allow the use of Mpesa in topping up saving as well as effecting monthly loan repayments.

Table 14: Alternative Distribution Channels

Has the MFI engaged in alternative distribution channels such as MPESA?	Response	% Response
Yes	25	83%
No	2	7%
Not sure	3	10%
	30	100%

The majority of MFIs, 80%, did not offer advisory services and support services to the borrowers. For instance, it is important to offer business advisory services to borrowers so that they are able to invest the borrowed money wisely. The finding is consistent with that of Kaufman (2007) who did a study on the SME financing gap. According to her, it was not enough to avail funds to borrowers in low income earning societies, it was also important to offer business training and other support services to ensure that the borrower benefited from the proper and prudent use of the funds.

Table 15: Advisory and Support Services

Doe the MFI offer advisory services to borrowers as a support service?	Response	% Response
Yes	2	7%
No	24	80%
Not sure	4	13%
	30	100%

4.3.3 Focus Strategy

The majority of respondents, 77%, 80%, 83% and 67% indicated that they targeted low income earners, they target women borrowers, they targeted the youth and also targeted groups such as merry go rounds and community development groups. The finding implies a focus strategy as the MFIs had specific products for different categories of borrowers. The finding is consistent with Porter (1998) which asserts that focus strategy involves targeting a particular market segment. This means serving the segment more efficiently and effectively than the competitors. Therefore focus strategy can be of cost leadership or differentiation aimed at a narrow market segment. Porter (1998) states that the advantages of focus strategy include having power over buyers since the firm may be the only source of supply.

Table 16: Focus Strategy

	Strongly agree	agree	disagree	strongly disagree	not sure
The firm targets low income earners	23 77%	4 13%	1 3%	2 7%	0 0%
The firm targets women borrowers	24 80%	3 10%	1 3%	2 7%	0 0%
The firm targets the youth	25 83%	2 7%	2 7%	1 3%	0 0%
The firm targets groups such as merry go rounds and community groups	20 67%	5 17%	3 10%	2 7%	0 0%

4.3.4 Value Disciplines

The majority of the respondents, 67%, 73% and 77% rated their firms excellently in operational excellence, customer intimacy and product leadership. The finding implies that MFIs have put in strategies to enhance the level of efficiency resulting in lower costs compared to competitors, level of customer service and customized solutions to achieve customer loyalty, and level of product innovation in the industry. The findings are consistent with those of Treacy and Wiersema, (1993).

Table 17: Value Disciplines

To what extent do you rate your firm in the following?	Excellent	Very good	Good	Fair	Poor
Operational excellence-Level of efficiency resulting in lowest costs compared to competitors	67%	17%	10%	7%	0%
Customer intimacy-level of customer service & customized solutions	73%	10%	7%	10%	0%
Product leadership-Level of product innovation in the industry	77%	13%	7%	3%	0%

4.4 Regression Results

The regression analysis was generated from the data in the following table. The data given below was arrived at after taking an average of the cost and performance indicators form the 30 MFIs.

To generate the regression model, the data was fed into SPSS and the results were explained in the sections that followed.

Table 18: Regression Data

Year	Cost Leadership Costs	R&D costs	Target advertisement costs	Value discipline costs	PBIT	Customer index	employee index	ISO certification
2005	2850000	3600000	12300000	3621885	105840000	0.58	0.61	0.20
2006	3169680	3886230	12780000	3689016	110880000	0.60	0.65	0.35
2007	3360000	4128197	12900000	4120574	111000000	0.64	0.68	0.54
2008	3600000	4172459	13500000	4200000	113400000	0.59	0.60	0.40
2009	4172459	4485000	14400000	4376311	118770000	0.72	0.76	0.60

4.4.1 Goodness of Fit

A regression of the independent variables and dependent variables indicate an R squared statistic of 1 (100%) for PBT, Customer index, Employee index and Iso certification. This implies that 100% of the changes in the dependent variable can be explained by changes in the independent variables.

Table 19: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000(a)	1.000	1.000	.

a Predictors: (Constant), VALUEDIS, TARGETCO, RESEARCH, COSTLEAD

4.4.2 Relationship between Competitive Strategies and Financial Performance (PBIT)

The resultant regression model shows and intercept of 1,934,827.059. This implies that a constant cost of KShs 1,934,827.059 has to be incurred at zero level of PBT.

Table 20: Coefficients-PBIT

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1934827.059	.000		.	.
	COSTLEAD	-10.321	.000	-1.094	.	.
	RESEARCH	17.798	.000	1.258	.	.
	TARGETCO	7.783	.000	1.339	.	.
	VALUEDIS	-7.314	.000	-.515	.	.

a Dependent Variable: PBIT

The regression coefficient of cost leadership implies that for one shilling of PBIT to be achieved, (10.321) shilling of cost leadership has to be spent. A regression coefficient of research and development costs implies that 17.798 shilling as to be spent for one shilling of PBIT to be achieved. A regression coefficient of target marketing costs implies that 7.783 shilling as to be spent for one shilling of PBIT to be achieved. A regression coefficient of value discipline costs implies that (7.314) shilling as to be spent for one shilling of PBIT to be achieved.

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016
www.carijournals.org

4.4.3 Relationship between Competitive Strategies and Customer Satisfaction Index

The resultant regression model shows and intercept of 7.194. This implies that a constant cost of KShs 7.194 has to be incurred at zero % of customer satisfaction survey index. . The regression coefficient of cost leadership implies that for one % of customer satisfaction survey index to be achieved, 1,747,000 shilling of cost leadership has to be spent. A regression coefficient of research and development costs implies that (0.0000006483) shilling as to be spent for one shilling of one % of customer satisfaction survey index to be achieved. A regression coefficient of target marketing costs implies that (0.0000007191) shilling as to be spent for one % of customer satisfaction survey index to be achieved. A regression coefficient of value discipline costs implies that (0.0000001142) shilling as to be spent for one % of customer satisfaction survey index to be achieved.

Table 21: Coefficient –Customer Index

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.194	.000		.	.
	COSTLEAD	1.747E-06	.000	15.167	.	.
	RESEARCH	-6.483E-07	.000	-3.753	.	.
	TARGETCO	-7.191E-07	.000	-10.130	.	.
	VALUEDIS	-1.142E-07	.000	-.658	.	.

a Dependent Variable: CUSTOMERINDEX

4.4.4 Relationship between Competitive Strategies and Employee Satisfaction Index

The resultant regression model shows and intercept of 9.171. This implies that a constant cost of KShs 9.171 has to be incurred at zero % of employee satisfaction survey index. .

Table 22: Coefficient-Employee Satisfaction Index

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.171	.000		.	.
	COSTLEAD	2.195E-06	.000	16.942	.	.
	RESEARCH	-6.990E-07	.000	-3.597	.	.
	TARGETCO	-9.267E-07	.000	-11.606	.	.
	VALUEDIS	-2.488E-07	.000	-1.275	.	.

a Dependent Variable: EMPLOYEESATISFACTIONINDEX

The regression coefficient of cost leadership implies that for one % of employee satisfaction survey index to be achieved, 2,195,000 shilling of cost leadership has to be spent. A regression coefficient of research and development costs implies that (0.0000006990) shilling as to be spent for one shilling of one % of employee satisfaction survey index to be achieved. A regression coefficient of target marketing costs implies that (0.0000009267) shilling as to be spent for one % of employee satisfaction survey index to be achieved. A regression coefficient of value discipline costs implies that (0.0000002488) shilling as to be spent for one % of employee satisfaction survey index to be achieved.

Journal of Business and Strategic Management
ISSN 2520-0402 (Online)
Vol.1, Issue No.2, pp 21 - 41, 2016
www.carijournals.org

4.4.5 Relationship between Competitive Strategies and Iso-Certification

The resultant regression model shows and intercept of 6.979. This implies that a constant cost of KShs 6.979 has to be incurred at zero % of iso-certification. The regression coefficient of cost leadership implies that for one % of iso-certification to be achieved, 1,858,000 shilling of cost leadership has to be spent. A regression coefficient of research and development costs implies that 1, 0130,000 shilling as to be spent for one shilling of one % of iso-certification to be achieved to be achieved. A regression coefficient of target marketing costs implies that (0.0000009616) shilling as to be spent for one % of iso-certification to be achieved to be achieved. A regression coefficient of value discipline costs implies that (0.0000001684) shilling as to be spent for one % of iso-certification to be achieved to be achieved.

Table 23: Coefficient- Iso Certification

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.979	.000		.	.
	COSTLEAD	1.858E-06	.000	5.829	.	.
	RESEARCH	1.013E-07	.000	.212	.	.
	TARGETCO	-9.616E-07	.000	-4.895	.	.
	VALUEDIS	-1.684E-07	.000	-.351	.	.

a Dependent Variable: ISOCERTIFICATION

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

One of the objectives of the study was to determine whether MFIs in Kenya use cost leadership competitive strategy. Findings in this study indicate that majority of MFIs in Kenya use cosdt leadership competitive strategy. This finding was supported by the majority of MFIs agreeing to the statements that the firm had expanded into more branches and had increased the number of employees. This finding implied that MFIs aimed at achieving economies of scale hence the resultant cheaper costs which can be passed on to consumers inform of own interest rates. The respondents also agreed to the statement that the firm had purchased more computer hardware and software and increased its use of internet connectivity. Such a move helps MFIs to operate efficiently and hence avoid cost increases. The cost savings are passed on to clients in form of lower interest rates and also ensure that the bottom line is improved. Furthermore, the majority of MFIs agreed with the system that they had increased their expenditure on employee training as well investing in a business intelligence system. The rationale of doing so is to save costs through building firms know how and reducing costs through the learning curve effect. The majority of MFIs also agreed with the statement that MFIs had access to cheaper sources of funds from NGOs and government. The cheaper sources of funds enable the MFIs to achieve cost leadership. The majority of MFIs also agreed that their branches were located near their clientele. Since the clientele were low income earners, the location of branches in those areas brought about cost savings in rental costs as well as costs of reaching the clientele.

One of the objectives of this study was to determine whether MFIs use differentiation competitive strategy. Study findings indicate that MFIs in Kenya use differentiation strategy in order to compete with other firms. The finding was supported by the majority of MFIs agreeing to the statement that the level of customization of their products was very high, that the level of complexity of borrowing requirements was low, that they participated in customer marketing, that they offered their products in different alternative channels such as Mpesa. All this statements demonstrated the use of differentiation strategy. However, it was noted in this study that MFIs did not offer advisory services and support to borrowers.

An objective in this study was to determine whether MFIs used focus as a competitive strategy. Findings in this study indicate that the majority of MFIs in Kenya use focus competitive strategy. The finding was supported by the majority of respondents, who indicated that the firm targeted low income earners, targeted the youth, targeted women borrowers and targeted groups such as community development groups.

Another objective in the study was to determine whether MFIs in Kenya use value disciplines competitive strategy. Findings in the study indicate that MFIs in Kenya use value discipline competitive strategy. The finding was supported by the majority of respondents who rated the level of efficiency resulting in lower costs compared to competitors(operational excellence) as excellent, rated the level of customer intimacy as excellent and rated the level of product innovative as excellent.

Another objective in the study was to determine whether there was a relationship between the competitive strategies and the performance of MFIs. Findings in this study indicate that there was a relationship. The finding was supported by an R squared statistic of 1. The R squared statistic of 1 indicated that 100% of the changes in performance (PBIT, customer satisfaction survey index, employee satisfaction survey index and iso-certification) can be explained by changes in the independent variables(cost leadership costs, differentiation costs, focus costs and value discipline costs). While some costs were positively related to performance, other was negatively related. The exact relationships are given in the regression model in chapter four.

5.2 Conclusions

From the study, varied conclusions were drawn. Firstly, MFIs used cost leadership as a competitive strategy in order to compete against other firms. This was supported by majority of the respondents, 67%, that indicated that their interest rates were very favorable compared to banks and other MFIs. The finding implies that the majority of firms employing cost leadership strategies had been able to pass the cost advantages to clients/customers through low interest rates.. MFIs also used differentiation as a competitive strategy in order to compete against other firms. The majority of respondents, 77%, indicated that the level of customization of MFI products was very high. 70%, of the respondents also indicated that to a very large extent, the MFIs had engaged in consumer marketing. The findings imply that the MFIs use consumer marketing as a differentiation strategy in order to achieve customer loyalty. The finding implies that MFIs used a differentiation competitive strategy in order to effectively compete with other MFIs. MFIs also used focus as a competitive strategy in order to compete against other firms.

The majority of respondents, 77%, 80%, 83% and 67% indicated that they targeted low income earners, they target women borrowers, they targeted the youth and also targeted groups such as merry go rounds and community development groups. The finding implies a focus strategy as the MFIs had specific products for different categories of borrowers. MFIs used value disciplines as a competitive strategy in order to compete against other firms. The majority of the respondents, 67%, 73% and 77% rated their firms excellently in operational excellence, customer intimacy and product leadership. The finding implies that MFIs have put in strategies to enhance the level of efficiency resulting in lower costs compared to competitors, level of customer service and customized solutions to achieve customer loyalty, and level of product innovation in the industry. There was also a relationship between competitive strategies and the performance of MFIs in Kenya. This was supported by a regression of the independent variables and dependent variables indicate an R squared statistic of 1 (100%) for PBT, Customer index, Employee satisfaction index and Iso-certification. This implies that 100% of the changes in the dependent variable can be explained by changes in the independent variables.

5.3 Recommendations

Given the findings and conclusions of the study, it was recommended that firms should continue to employ the various competitive strategies they are currently using as doing so improves their performance. Consequently, they should expand their branches with an aim of achieving economies of scale, increase their number of employees, increase their investment in computer hardware and software, increase investment in internet connectivity, improve their levels of product customization, reduce the level of complexity for borrowing requirements, offer advisory and support services to borrowers , incur costs related to focus strategy such as target advertising costs and also invest in value discipline measures**.**

5.4 Suggestions for Further Studies

One suggested area of further research relates to determining the most preferred or the most dominant competitive strategy being used by MFIs. As noted in this study, the MFIs were using all competitive strategies; hence it was impossible to determine the most preferred competitive strategy by firms. In addition, it will add value to research on the accuracy of the proposition by porter (1998) that firms using more than one competitive strategy would find such a move counterproductive as they would suffer from being “split in the middle phenomena”.

REFERENCES

AMFI (2009). Members of the association of microfinance institutions. Retrieved from www.amfi.co.ke.members.html

Ansoff, I. (1988*). Corporate strategy*. (2nd ed.). McGraw – Hill. New York.

ATC consortium (2009). MFI upgrading initiative. Retrieved from: http://mfi-upgrading-initiative.org/index.html

Berkowitz, E. N., Kerin, A. R., Hartley, S.W., & Rudelins, W. (1994*). Marketing, (4th ed.),* Irwin publishers.

CBK (2009). *Regulation and supervision of microfinance institutions in Kenya*. CBK Bulletins. Government Press

Churchill, G. A. (1991). *Marketing research: Methodological foundation, (5th ed.).* The Dryden Press, New York.

Coulter, M (2002). *Strategic management in action,* (2nd ed.), Prentice Hall. New Delhi.

Davidson, W., & Sweeny, D. (1984). .*Retail marketing* .John Wiley and sons, New York.

Gavetti, G., & Levinthal, D. (2000). Looking forward and looking backward: Cognitive and experiential search. *Administrative Science Quarterly, 45,* 113–37.

Guest, D. E., Michie, J., Conway, N., & Sheehan, M. (2003). Human resource management and corporate performance in the UK. *British Journal of Industrial Relations, 41*, 291-314.

Hambrick and Fredrickson, (2001). The satisficing principle in capability learning. *Strategic Management Journal*, 21 (2000), 981–996.

Hamel, G., & Prahalad, C. K. (2000). *Competing for the future* (Boston: Harvard Business School Press).

Julien, et al. (2003). *Competitive strategy and performance of exporting SMEs*. The Dryden Press, New York.

Kaplan, R.S. & Norton, D.P. (1992). The balanced scorecard: Measures that drive performance. Harvard Business Review, 70(1), 71-79.

Kay, J. (1999). Resource based strategy. *Financial Times* (September 27, 1999).

Kotler, P. (1999). *Marketing Management Millennium Edition*, Prentice Hall, New Delhi.

Miller (1992). *Rethinking corporate strategy,(2nd ed.*). McGraw – Hill, New York.

Newman, W. H., Logan, J. P., & Hergarty, W. H. (1989). *Strategy: Multilevel, integrated approach,* South Western Publishing Company.

Oketch(2006). *The role of management ability and competence in the success of a chosen competitive strategy*. Unpublished.

Omino (2007). *Regulation and supervision of MFIs in Kenya*. CBK Publication. GOK

Parnell, M., & Koseoglu, P. (2010). Compettive strategy and performance relationship. *International Journal of management and enterprise, 8*(1).

Pearce, J., & Robinson, R. (2000). *Strategic management: Formulation, implementation and control, (7th ed.),* McGraw-Hill.

Porter, M. E. (1998). *Competitive strategy; Techniques for analyzing industries and competitors,* The Free Press, New York.

Porter, M. E. (2002). *Porters Generic Strategies:* Retrieved on from http://ww.qiuckmba.com/strategy/generic.shtlm, 6th July 2003.

Thompson, A. Strickland, J. (1998) .*Crafting and implementing strategy, texts and readings, (10th ed.),* McGraw – Hill, New York.

Treacy & Wiersema, F. (1993). *Value disciplines.* Lite press. London

Wanjira, S. (2005). *Factors affecting the success of competitive strategies in Kenyan hospitality industry*. Unpublished.