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Competitive Strategies And Performance Of Microfinance Institutions In Nairobi City County, Kenya

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***Abstract:** The MFI sector has experienced an influx of new enterprises all competing for the same clients. The current investigation is aimed at establishing the competitive strategies adopted by the MFIs in Kenya. The definite objectives of the inquiry included to investigate the implications of cost leadership approaches, differential strategies and focus strategies on the performance of MFIs in Nairobi. The population of study was 96 MFIs in the 17 sub-counties in Nairobi City County that were active. This consists of 96 respondents who were the management cadre staff of each of the MFIs. The primary data was gathered using self-administered semi-structured questionnaires. Data analysis was carried out using descriptive and inferential statistics including frequencies, proportions, mean scores and standard deviations. From descriptive statistics, focus strategy had a higher effect on performance followed by differentiation strategy and cost leadership strategy. Regression analysis highlighted that focus strategy had a significant effect on performance followed by differentiation strategy and cost leadership strategy, an indication that they all had positive and significant effect on performance of MFIs. The study concludes that focus strategy significantly influenced performance of MFIs. Differential strategy had a positive and significant implication on performance of MFIs. Cost leadership strategy had positive and significant consequence on performance of MFIs. The research recommended that the top management of all MFIs in Kenya should increase the adoption of costs leadership as a strategy that would directly improve performance.*

***Keywords:** Competitive Strategies, Microfinance Institutions, Business Performance, Cost Leadership, differential strategies, focus strategies*

I. INTRODUCTION

Murage (2013) noted some profound correlations between competitive strategies and performance. Features linked to high performance strategies include a focus on technological approaches, adept client relations and support, discoveries and entry to new markets, professional marketing, exploring external sources of financing, emphasis on effective costing approaches and a focus on the productivity of employees (Murage, 2013).

MFIs undergo a series of challenges when operating, managing and improving their businesses in ways that efficiently offer quality goods and services and in good time. It follows that in many institutions; the adoption of strategic approaches compels the management to expensive and time consuming adjustments in the organizational structure and culture. Business owners and their management have hence decided to overlook some crucial and necessary business decisions. This feature has adversely affected their performances and lead to poor service offering, negative bottom-line and augmented internal inefficiencies. Beyond that, a notable implication has been that the feature has significantly constrained the Gross Domestic Product (GDP), job creation and individual performance of business.

A. COMPETITIVE STRATEGIES

Porter summarized competitive strategies as forces such as rivalries among existing and new businesses in the market, alternative products and services, the growing bargaining powers of both the suppliers and the buyers. A business` products and services are a feature of its suppliers, buyers, substitutes, new comers and competition in the industry. In the case of suppliers and buyers, they have negotiating powers on a business's offering while potential market entry and substitute products and services pose threats to the offering of the business (Porter, 1985).

Barney (2007) and Porter (1998) further highlighted generic competitive strategies to counter the existing competitive forces. These strategic approaches include differentiation, cost leadership and focus strategies (Porter, 1985). The Cost Leadership strategy involves being the leader in terms of cost in an industry or market. Differentiation strategy involves making products or services different from and more attractive than those of the competitors. Finally, focus strategy concentrates on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, hence developing uniquely low-cost or well-specified products for the market respectively.

B. ORGANISATIONAL PERFORMANCE

Performance has been defined by Porter (1985) as a feature of an institution`s capability to achieve its goals and objectives through efficient and effective use of the available resources. Research by Whyte (2011) noted that performance can be established at both the individual and institutional levels. Measuring the group performance is more valuable than focusing on a set of standards while excluding others (Crane, 2010). The financial performance of a business illustrates the financial eminence of that transition as a whole; it highlights the financial solidity of the organization and is included in the financial statements of the company (Willoughby and Julia, 2001).

Performance is basically the achievement of a particular activity compared with the preset standards of completeness, efficiency, accuracy, and cost effectiveness. Similarly, it implies the level at which a task is achieved. The preferred standards for financial evaluation that dictates a business` financial position is categorized into a series of categories: solvency, liquidity, profitability, financial efficiency and repayment capacity. It is worth noting that both the past and present financial data are not only the features that affect and institutions financial performance (Crane, 2010).

Pointedly, some financial indicators of financial performance include: sales growth, return on equity (ROE return on investment (ROI), and earnings per share. The commonly used financial ratios that help establish a firm's performance can be summed up as growth and profitability: return on investment, return on asset, revenue growth, return on equity, market shares, sales growth, operational efficiency, stock price, return on sale and liquidity (Ouma and Cloete, 2007). The performance of MFIs is mostly on the basis of efficiency and leanness of their activities, employee turnover, and customer loyalty, rates of growth, client services and overall profitability of the business.

II. STATEMENT OF THE PROBLEM

Regardless of the opportunities attributed to global development, the findings have barely been satisfactory for MFIs according to their performance. This was showed by baseline survey; carried out by Kenya National Bureau of Statistics (2016) and established a high rate of failure and stagnation among the majority of MFIs. The study noted a steady growth in about 38% of the MFIs while 58% are barely showing any growth and that microfinance institutions are most likely to fail in their initial three years of activity. Similar findings were also noted in a Ministry of Planning (2008) survey carried out by the Institute of Development Studies at The University of Nairobi that made use of a sampled MFIs located in Central Kenya. The research noted that 57% of MFIs are barely growing while only 33% of them show some level of growth. Kiware (2007) explored the competitive tactics employed by commercial banks in Muranga town and noted that the approaches used were primarily based on performance and hence could hardly be refuted. Mulaa (2004) looked at competitive strategies employed by SMEs in exhibitions in Nairobi concluding that small scale enterprises employ cost leadership and price differentiation strategies. However, there are limited studies on the implications of competitive strategies on performance of MFI's in Nairobi, Kenya.

III. OBJECTIVE OF THE STUDY

The objective of the study was to explore the effect of competitive strategies on performance of MFIs in Kenya.

IV. RESEARCH QUESTION

The study sought empirical evidence to answer the following research question:

What is the effect of competitive strategies on performance of MFIs in Kenya?

V. LITERATURE REVIEW

This section presents the specific theories that guided the study, as well as the empirical review.

A. THEORETICAL REVIEW

a. PORTER GENERIC STRATEGIES MODEL

The framework was developed by Michael Porter in 1980. The strategy describes how an organization can pursue competitive advantage in the selected population. Pointedly, there exists three generic strategies; differentiation, lower costs and focus. An institution selects the approach that they see fits and serves their purpose. The generic strategy is a reflection of the decisions that are made based on different types of competitive advantage and scope (Barney, 2007; Porter, 1998). Firstly, as a strategic approach, cost leadership enables a business to be a low-cost producer hence increasing their profits compared to the competition as a result of reduced cost of production and economies of scale. Secondly, Differentiation arises from how the product and service offering of a business affects the activities of the customers. The strategy is included with the value chain frameworks that support their application in business undertakings. Thirdly, Focus strategy is founded on the basis of serving certain market segments while excluding another section. These are generally customers segments with unpopular demands as the potential market and hence the business decides to bestow its products and service offering to serving them (Porter, 1998). In this case, the model is applicable to this study because it focuses on competitive strategies.

b. RESOURCE-BASED VIEW THEORY

Theorists have widely explained the forces behind the success and failures of businesses across the globe by putting into consideration the competitive capabilities of their affiliates or the native mergers in the developing markets (Luo, 2003). The resident knowledge allowed by subsidiaries or local mergers have become a significant means of conceptualization of value as per the locally set standards (Gupta, 2011). RBV theory has come out in strategic management research as a key theoretical perception applied in the highlight of consistency in inter-organizational performance variations (Barney, 1992). In this regard, resources are either tangible or intangible assets that are controlled or owned by the enterprise, while the organizational abilities infer its potential to combine and exploit these resources using operational routines so as to attain its goals (Amabile, 1996). The theory was supported by Wernerfelt in 1984 although there is evidence for its existence and usage of a fragmentary resource-based theory from the 1930s, and implies that competition can be achieved through innovation and delivery of quality goods and services (Murage, 2013). The existing literature highlights the strategic development and application of institutions resources for the deployment of a sustainable competitive advantage (Barney, 1992). The current study applies RBV theory and draws its significance while investigating the way internal and external resources are inclined to competitive strategy and allow a business to improve its innovative performance (Galbreath, 2005).

c. BALANCED SCORE CARD

The concept was inspired by Kaplan and Norton (1992). The significant features that describe a balanced scorecard includes the emphasis on a strategic objective of the concerned institution, identification of a small number of data sets and a mixture of both financial and non-financial information items to monitor performance (Rigby & Bilodeau, 2013). Although the score card assists management to focus their attention on strategic issues and in the implementation of strategic approaches, it is worth noting that the balanced scorecard in itself lacks a role in the strategic formation. Pointedly, the balanced score card has the ability to work in conjunction with strategic planning structures and other tools (Raman, 2004).

Balanced scorecard exemplifies a cybernetic control or closed-loop controller used in managing implementation strategy. Cybernetic or closed-loop control involves the measurement of actual performance, where the measured values are linked to the reference values and based on the variations between the two, corrective interventions are then applied as recommended. These controls demand certain things to be effective including the choice of data being measured, the setting of reference values for the data and the capability to arrive at corrective interventions (Foss, 2004). The context of strategy management requires that all the three characteristics of the closed loop control elements be drawn from the institution`s strategic approach and also reflects the capability of the observer to both monitor and subsequently intervene the performance. The balanced score card was firstly developed as an ultimate purpose performance management system. Consequently, it was advanced as an instrument of strategic performance management. The score card has recently been used as a primary element of an organized approach to corporate strategic management. Some of the ideologies behind the contemporary balanced scorecard designs are concerned with easing the selection of datasets used to observe and ensure consistency in the abilities to analyze and intervene (Kitua, 2014).

B. EMPIRICAL REVIEW

A research conducted by Sifuna (2014) on the implications of competitive strategies on performance of tertiary institutions in Kenya concluded that Cost leadership has an effect to a great extent. Public universities that adopted cost leadership were able to obtain competitive advantage as opposed to those that did not. Onkoba (2014) studied the effect of strategic reactions to the varying competitive commercial practices on the performance of the organization; a case of paint manufacturers in Kenya. The findings showed that cost leadership and company performance has a positive relationship.

Pearce and Robinson (2011) conducted a research on the use of porter's generic strategic approaches in Kenya's hospitability industry. This study was done internally as response was not obtained from the clients. The findings showed that cost leadership has a continuous improvement of performance. This study sought to determine whether MFIs that have adopted cost leadership strategy are able to improve their performance. To attain a cost advantage, institutions overall costs across its spectrum should be lower compared to that in the market. The key to successfully achieving low cost leadership is to proactively redesign the MFIs, coming up with creative approaches to restructuring process and activities and allow the basics in an economical way. A low cost strategy needs no association with low prices at all times, this feature is due to the fact that lower costs are likely to lead to increased profit or enhanced advertisements and promotion as opposed to reduced pricing. Cost leadership can be achieved through cost efficiency, competitive pricing and capacity utilization of resources.

According to a study by Ombati (2017), competing practices among MFIs has contributed to market efficiencies, customer protection, promotion of technical efficiency and the provisioning of incentives for the development of new products. The study established that product differentiation fulfills a customer need. According to Jones and Linderman (2014), organization should engage in activities that will generate high performance and competitive advantage. The authors state that product innovativeness is the process of creating new produce from new materials or manipulation of existing materials to meet customer requirements.

Munyasia (2014) conducted a research on the implications of competitive strategies on business performance in the Kenyan sugar industry. The findings showed that focused strategy barely has any significant result on the business performance. A study conducted by Kamau (2013) on competitive strategies adopted by private universities in Kenya showed that focus strategy enables an organization to gain competitive advantage. Wesulah (2016) stated that, focus strategy is aimed at realizing competitive advantage in the particular unit that the business has selected. Specialized products or services are central to any analysis of flexible manmade systems (Johnson and Scholes, 2008). It enables a company to gain competitive advantage and thus better performance.

VII. METHODOLOGY

The current study problem was carried out using descriptive research designs. A descriptive research resign can be described as a series of approaches ideal for collecting human characteristic, attitude and behavior by issuing a set of prepared questions and obtaining response from individuals (Kuada, 2012; Daniel and Sam, 2011). This design used a questionnaire to determine customer's attitudes, opinions and preferences (Kumar, 2011). A survey was used because they are more efficient and economical (Mugenda and Mugenda, 2003). The current investigation was therefore able to summarize the results to all relevant businesses (Kothari, 2009). The target population in the current research was all the management cadres of the MFIs in Nairobi County. Quantitative data gathered was evaluated using descriptive statistics and inferential analysis and presented through percentage, average, frequencies and standard deviation. Additionally, the study the following regression equation;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where; Y= Performance of MFIs; B_0 - intercept coefficient; ε_i _error term (extraneous variables); X1 –Cost Leadership Strategy; X2– Differentiation Strategy; X3–Focus Strategy; β_1, β_2, and β_3 =regression coefficients.

VIII. FINDINGS AND DISCUSSIONS

A. COST LEADERSHIP STRATEGY

The study sought to investigate the effect of cost leadership strategy on performance of MFIs. The findings are shown in Table 4.5 below.

	Mean	Std. Dev
We always charge lower prices than our competitors	3.05	1.32
We normally charge higher prices than our competitors	3.72	.952
We constantly reduce labor input through automation	3.58	1.12
We vigorously pursue cost reduction	4.23	.593
We heavily invest in sales promotion	3.73	.691
We always strive to reduce cost in administration activities	3.69	1.13
We always emphasize on an internal operational efficiency programme	3.75	1.01
Our major cost is on technology-based delivery of services	4.08	.868
Mean Score	**3.72**	**0.960**

Source: (Survey Data, 2018)

Table 1: Cost Leadership Strategy

As indicated in Table 1, it was not certain whether the studied MFIs charged lower prices than their competitors with mean of 3.05 and standard deviation 1.32. The studied MFIs normally charged higher prices than competitors with mean of 3.72 and standard deviation of 0.952. Most MFIs constantly reduced labor input through automation with mean of 3.58 and standard deviation of 1.12. Majority of the studied MFIs vigorously pursued cost reduction with mean of 4.23 and standard deviation of 0.593. The studied MFIs heavily invested in sales promotion with mean of 3.73 and standard deviation of 0.691. The studied MFIs always strived to reduce cost in administration activities with mean of 3.69 and standard deviation of 1.13. Most of MFIs always emphasized on an internal operational efficiency programme with mean of 3.75 and standard deviation of 1.10. The major cost of most MFIs was on technology-based delivery of services with mean of 4.08 and standard deviation of 0.868. The average score showed a mean of 3.72 with standard deviation of 0.960. This indicates that low costs leadership had a large implication on performance of MFIs.

B. DIFFERENTIATION STRATEGY

The study sought to investigate how differentiation strategy affected performance of MFIs. Using a Likert scale of 1-5, the findings are shown in Table 4.6 below.

Statement	Mean	Std. Dev.
We always offer a broad range of products	3.91	.884
We provide a narrower range of products/services than our competitors	3.70	.829
We continuously develop new products	3.61	.760
We introduce innovative products better than our competitors	3.72	.451
Our firm does not utilize much technology in its operations	4.11	.881
Our major expenditure is on technology to differentiate products/services	3.09	1.03
We review product / service prices to match or be lower than that of the market	3.79	.854
We rebranded our services / products to create market recognition	3.77	.842
Mean Score	**3.71**	**0.816**

Source: (Survey Data, 2018)

Table 2: Differentiation Strategy

The findings in Table 2 indicate that the studied MFIs always offered a broad range of products with mean of 3.91 and standard deviation of 0.884. There was provision of a narrower range of products/services than that in the market with mean of 3.70 and standard deviation of 0.829. Majority of the MFIs continuously developed new products with mean of 3.61 and standard deviation of 0.760. Most of the MFIs introduced innovative products better than competitors with mean of 3.72 and standard deviation of 0.451. Most of the studied firms firm did not utilize much technology in its operations with mean of 4.11 and standard deviation of 0.811. It was unclear whether the major expenditure was on technology to differentiate products/services with mean of 3.09 and standard deviation of 1.03. A great number of the studied MFIs reviewed product / service prices to match or be lower than competitors as shown by a mean of 3.79 and standard deviation of 0.854. Most of the studied MFIs rebranded services / products to create market recognition with mean of 3.77 and standard deviation of 0.842. The average score was 3.71 with standard deviation of 0.816. The findings indicate that on average, differentiation had a large influence on performance of MFIs.

C. FOCUS STRATEGY

The study sought to investigate how focus strategy affected performance of MFIs. On a five-point Likert scale, the responses indicated by respondents are shown in Table 4.7 below.

	Mean	Std. Dev.
We serve diverse market segment	3.54	.838
We serve specific geographical market	3.56	.765
We focus on marketing specialty product	4.29	.720
We constantly target a specific market	3.31	1.13
We seek to provide products/services in different geographical locations	3.98	.911
We meet our customer needs more than our competitors	3.73	.903
We offer tailored services/products to meet customer demand	4.04	.925
We quickly respond to changes in demand of our customers	3.62	.999
We offer products/services for higher price segments	3.06	.484
Mean Score	**3.68**	**0.852**

Source: (Survey Data, 2018)

Table 3: Focus Strategy

From Table 3 above, some of the MFIs served diverse market segment with mean of 3.54 and standard deviation of 0.838. Other MFIs served specific geographical market with mean of 3.56 and standard deviation of 0.765. Majority of the studied MFIs focused on marketing specialty product with mean of 4.29 and standard deviation of 0.720. However, it was not clear whether the studied MFIs constantly targeted a specific market with mean of 3.31 and standard deviation of 1.13. Majority of the MFIs sought to provide products/services in different geographical locations with mean of 3.98 and standard deviation of 0.911. Most MFIs met customer needs more than competitors with mean of 3.73 and standard deviation of 0.903. A vast majority of MFIs offered tailored services/products to meet customer demand with mean of 4.04 and standard deviation of 0.925. Most of the studied MFIs quickly responded to changes in demand of our customers with mean of 3.62 and standard deviation 0.999. It was however uncertain whether the studied MFIs offered products/services for higher price segments with mean of 3.06 and standard deviation of 0.484. The average score was 3.68 with standard deviation of 0.852. This shows that focus strategy had a large impact on performance of MFIs.

D. PERFORMANCE

The findings on performance of MFIs as sought by the study are indicated in Table 4.8 below.

Statement	Mean	Std. Dev
Improved internal processes for increased efficiency	3.59	.762
The employee turnover has reduced due to satisfaction	3.93	.678
Customer loyalty has increased due to satisfaction	4.25	.930
Brand recognition in the market has improved	3.23	.741
Improvement in sales	3.76	1.08
Growth of profitability	3.90	.507
Average Score	**3.77**	**0.783**

Source: (Survey Data, 2018)

Table 4: Performance

From Table 4 above, some of the MFIs had improved internal processes for increased efficiency with mean of 3.59 and standard deviation of 0.762. In most of the MFIs, the employee turnover had reduced due to satisfaction with a mean of 3.93 and standard deviation of 0.678. Customer loyalty had increased due to satisfaction with a mean of 4.25 and standard deviation of 0.930. However, brand recognition in the market had not significantly improved with mean of 3.23 and standard deviation of 0.741. There was improvement in sales with mean of 3.76 and standard deviation of 1.08. There was also growth of profitability with a mean of 3.90 and standard deviation of 0.507.

E. REGRESSION ANALYSIS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863[a]	.744	.733	1.13735

a. Predictors: (Constant), Focus Strategy, Low Cost Strategy, Differentiation Strategy

Source: (Survey Data, 2018)

Table 5: Model Summary

From the findings, the value of the coefficient of determination R square is 0.744. This shows that 74.4% change in performance of MFIs is explained by competitive strategies adopted. Therefore, it can be inferred that there are other factors (outside the scope of the current study) that explain the remaining 25.6% change in performance of MFIs.

	Sum of Squares	df	Mean Square	F	Sig.
Regression	255.690	3	85.230	65.888	.000[b]
Residual	87.963	68	1.294		
Total	**343.653**	**71**			

a. Dependent Variable: Performance

b. Predictors: (Constant), Focus Strategy, Cost Strategy, Differentiation Strategy
Source: (Survey Data, 2018)

Table 6: Analysis of Variance (ANOVA)

From the ANOVA Table above, the calculated value of F is 65.888 while F critical (at d.f 3, 68) is 1.294. The calculated value of F is greater than F critical and therefore the general regression model was important in approximating how competitive strategies influenced performance of MFIs.

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	6.395	1.198		5.338	.000
Cost Leadership Strategy	.139	.047	.268	2.935	.007
Differentiation Strategy	.145	.063	.222	2.287	.002
Focus Strategy	.486	.132	.877	3.669	.000

a. Dependent Variable: Performance
Source: (Survey Data, 2018)

Table 7: Multiple Regression Analysis

From the regression analysis results, at a significance level of 0.05 the regression equation becomes;

$Y = 6.395+0.139X_1+0.145X_2+0.486X_3$

According to the overall regression results obtained above, performance of MFIs would be at 6.395 when all the factors are held constant. For a unit increase in cost leadership strategy while holding all the other factors constant, performance would be at 0.139. The study found out that cost leadership had a (β=0.139, p=0.007<0.05) an indication that the cost leadership had a significant positive implication on performance of MFIs. The results are in line with Onkoba (2014) who studied the effect of strategic responses to the fluctuating competitive business environment on the performance of the organization and showed that cost leadership and company performance has a positive relationship. On differentiation strategy, the study found that it had a (β=0.145, p=0.002>0.05) while focus strategy was found to be having a (β=0.486, p=0.000>0.05) an indication that they all had positive and significant influence on performance of MFIs.

IX. CONCLUSIONS

The study concludes that cost leadership strategy had positive and substantial consequence on performance of MFIs. The study further concludes that differentiation strategy had a positive and substantial effect on performance of MFIs. The study also concludes that focus strategy significantly influenced performance of MFIs.

X. RECOMMENDATIONS ON IMPLICATIONS FOR PRACTICE

Cost leadership strategy is a critical factor affecting performance and therefore the top management of all MFIs in Kenya should increase the adoption of costs leadership as a strategy that would directly improve performance. The study recommends administrations of MFIs in Kenya to embrace differentiation as a strategy of improving performance. The study suggests that all enterprises in financial sector in Kenya need to increase investment in focus strategy to boost their performance.

XI. RECOMMENDATIONS FOR FUTURE STUDIES

The current research was done among MFIs; future similar studies should be conducted among other institutions in the financial sector like the banking, insurance and real investment sectors. The current study was limited to determining how competitive strategy affected performance; future studies should asses how competitive strategies affect other aspects like organizational growth.

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