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EFFECTS OF COMPETITIVE STRATEGY ON PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KENYA: A SURVEY OF MICRO-FINANCE INSTITUTIONS IN KISII COUNTY

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Abstract
Competition among MFIs has contributed to well-functioning markets, protection of consumers, promotion of a locative and technical efficiency, and the provision of incentives to develop new products. This study evaluated the effects of competitive strategy on performance of micro finance institutions in Kenya. The study adopted descriptive research design. The target population was 130 employees of five selected MFIs existing in Kisii County. 65 respondents were selected using stratified random sampling. Data collected was subject to descriptive analysis and regression analysis using SPSS. From the findings, the study established that Product differentiation fulfills a customer need. The study also established that an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy. The study also established that management should try to focus on their market niche since focus aims at growing market share through operating in a niche market. The study recommends that the management on Micro Finance Institutions in Kenya should consider adopting differentiation strategy so as to ensure effective performance of Micro Finance Institutions in Kenya. The study also recommends that is very crucial that the organization take into consideration cost leadership strategy which will help them to gather valuable information providing valuable strategic insights and necessary input to find effective.

Keywords: Differentiation Strategy, Cost Leadership Strategy, Market Focus Strategy; Performance; MFIs

INTRODUCTION

In the early years of the development of microfinance, the idea of providing microloans to the poor as a way to alleviate poverty mainly appealed to and attracted social investors and non-government organizations (NGOs). Yet, over the years microfinance has proven to be a successful, and even profitable, model of financial intermediation. This has attracted increasing interest from commercially oriented providers of microfinance, among which are also (international) commercial banks (Hulme and Arun, 2009). Profit oriented MFIs thus have become increasingly important, which according to some observers has also led to a change in focus of microfinance from being socially oriented "poverty lending" approach focusing on reducing poverty through providing financial services and funded mainly by donors, government subsidies and other concessional funds to an institution oriented "financial systems" approach focusing on commercially viable financial intermediation to the poor with an emphasis on institutional financial self-sufficiency (Cull et al., 2009). Increased competition among MFIs is one of the outcomes following the increasing role of profit oriented institutions and the change of status by NGOs from non-profit to profit making (commercialized) institutions. One distinctive characteristic of the market for microfinance is that transactions are based on the use of soft-information and strongly depend on tight institution-client relationships. MFIs provide financial services to the poor who are usually not considered creditworthy by traditional banks. These institutions are able to solve problems of information asymmetry and provide loans without collateral requirements. They do so by establishing strong personal relationships with clients as well as by using other forms of collateral, such as group lending, which generates social collateral (Hermes, Lensink&Meesters, 2009).

Competition among MFIs may contribute to well-functioning markets, protection of consumers, promotion of allocative and technical efficiency, and the provision of incentives to develop new products (Motta, 2004). In particular, it may stimulate them to reduce costs and increase the efficiency of their operations by improving the quality of their services in order to retain clients. Moreover, competitive pressure from banks may stimulate MFIs to diversify their financial services to keep clients or attract new ones. In particular, it may stimulate MFIs to offer saving accounts, demand deposits and insurance.

Competitive strategy is about being different or unique in the eyes of the customer, by deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 2005). Porter continues to define competitive strategy as a combination of the ends for which the firm is striving and the means by which it is seeking to get there. It is also a search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces

that determine industry competition. Competitive strategy set forth a framework for analyzing industries and competitors. He therefore embraces strategy as both a plan and position. Competition erodes profitability; as competition increases the interest of different stakeholders converge around the goal of survival (Grant, 2005). It is therefore important that these MFIs respond strategically to survive the competitive challenging environment.

According to Thomson, Strickland and Gamble (2010), a competitive strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals. The objective of competitive strategy is to knock the socks off rival companies by doing a better job of satisfying buyer needs and preferences. He continues to say that there are countless variations in the competitive strategies that companies employ mainly because of each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment. According to Jones (2009), the five distinct competitive strategy approaches stand out:

A low-cost provider strategy: striving to achieve lower overall costs than the rivals and appealing to a broad spectrum of customers. A broad differentiation strategy: seeking to differentiate the company's products and services offering from rivals' in ways that will appeal the customers. A best-cost provider strategy: giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals. A focused (or market niche) strategy based on low costs: concentrating on a narrow buyer segment and outcompeting rivals by having lower cost than rivals and thus being able to serve niche numbers at a lower price. A focused (or market niche) strategy based on differentiation: concentrating on a narrow buyer segment and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than the rivals products.

Porter presented the generic strategies that a firm can use to overcome the five forces and achieve competitive advantage. One study analyzed strategic business units and found out that the businesses combining multiple forms of competitive advantage outperform businesses that use only a single form. The lowest performers were those that did not identify with even a single type of advantage, (Dess et al 2005). The hosts of external environment factors influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. Many of the world's largest corporations are realizing that business activities must no longer ignore the environmental concerns. It is therefore important that the MFIs that are currently operating in a competitive environment to continuously adapt to the environmental changes, because it determines the direction of any organization, (John, et al., 2009).

The MFIs, Microfinance institutions, have come to the force of the Kenya's financial and credit sector as a powerful force driving the economy. K-Rep the very first MFI founded in 1984

started driving small loans to the entrepreneurs instead of giving them grants. To date the MFI has been given a right to operate as bank and others like the KWFT and Faulu soon given the right to operate as banks, this will bring competition to the banks this according to (Murithi, 2011). He continues to say that Equity bank which laid its foundation as a microfinance institution is as of a report on the banking sector concluded in October 2010; is the country's largest commercial bank in terms of customer base, a total of 5.7 million accounts. This comprises of more than 57% of all the Banks accounts in the republic. Infact according to the financial audit report for the year ended 31st December, 2011; the Bank's shareholders were US$336.7 million (kshs 28.3 billion).

A study by Darius, (2011), showed that there was a general banking crisis in the country and a few indigenous banks like National bank were collapsing and there was panic in the industry. The public perceived that the indigenous banks were collapsing so they started massive change of strategies in the banking industry and the banks thought of developing strategies that will help them survive in the harsh competitive environment. The strategies they were putting in place was strong branch network, the IT strategy and even offering their services through the internet.

The main aim of microfinance in Kenya was and is to address poverty. Between 1980s and 2000, NGOs and multi-national agencies were behind many MFIs. They were co-financing agencies. The co-financing agencies were concerned with alleviation of poverty and creation of employment as well as increasing the income of the poor. They were also concerned with improving social capabilities availability and access to resources and participation in decision making. Between 1980s and 1990s the dominant and specialized microfinance institutions in Kenya were Kenyan Women Finance Trust (KWFT), Kenya Rural Enterprise program(K-REP), Faulu Kenya and Family Finance. So far some of them have converted into full pledged commercial banks. Profit generation and sustainability are attributed to such move and they are charging relatively high interest rates. With the implementation of structural Adjustment programs (SAPs) in the early 1990s microfinance became more vibrant to counter the social economic effects of the liberalized economy. The government identified micro enterprises as a need sector that required donor funding through microfinance agencies. The government's intention was to promote micro-enterprise sector as a means of accelerating economic growth and generating employment opportunities. Initially the pioneer microfinance, the Kenya Rural Enterprise program (K-REP) was concerned with lending to existing enterprises and not starters just because of lack of capacity to train and provide technical assistance to starters. This started becoming business oriented approach and not integrated with training. Due to pioneering and supportive roles of K-REP as well as donors, much appreciating NGOs emulating Grameen

Bank approach. Kenya witnessed emergence of NGOs, microfinance Agencies in the 1990s using Grameen Bank group lending model (Arasa&Githinji, 2014).

Two categories of microfinance operate in Kenya; formal and informal based on the statutes under which they operate or registered. They are also based on customer- provider relationship in the management and ownership of the finance service provider. Member based ones include savings and credit cooperatives and merry-go rounds. Client based and the specialized microfinance institutions include Faulu Kenya, KWFT KREP among others. Lending by microfinance is either group or individual based or minimalist verses intergraded approach. Group based which take the form of Grameen bank method is common. Also unregistered shylocks lend at very high interest rates. Interest rates charged by specialized microfinance institutions are monthly which reflect that they are low but are actually higher than commercial banks. It has been proved that group guarantee schemes are an inconvenience to many because each want to plan his finances and create fear of default among members. KWFT lends to women either in groups or individuals. Savings of the members become security. It lends at rates of 15% to 18% per annum. Sometimes conditions like registration of groups is a requirement and that the group members must be operating businesses (Kinyuira, 2014).

The Microfinance Act, 2006 and the Microfinance (Deposit Taking Institutions) Regulations 2008 issued there under sets out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The Microfinance Act became operational with effect from 2nd May 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision. The Act enables Deposit Taking Microfinance Institutions licensed by the Central Bank of Kenya to mobilise savings from the general public, thus promoting competition, efficiency and access. It is, therefore, expected that the microfinance industry will play a pivotal role in deepening financial markets and enhancing access to financial services and products by majority of the Kenyans (CBK, 2014). Successful strategy implementation can go a long way in helping a company gain a competitive edge, defining the business of the organization and help in achieving right direction. The company also benefits by having its various strategies entrenched and broadly accepted by all the employees guaranteeing successful implementation in the future.

The fatal problem with competitive strategy implementation is the de facto success rate of intended strategies. In research studies it is as low as 10 percent (Judson, 2006). Despite this abysmal record, competitive strategy does not seem to be a popular topic at all. In fact, some managers mistake implementation as a strategic afterthought and a pure top-down-approach. Instead, management spends most of its attention on strategy formulation. Research

emphasizing performance of MFIs is classified as part of a first wave of studies proposing structural views as important facilitators for its competitive strategy implementation (Bourgeois et al, 2004).

Problem Statement

During the last three decades, microfinance has captured the interest of both academics and policy makers. The industry has been growing at a significant rate and in several countries it has become an important sub-sector of the formal financial markets. Especially during the past few years the growth of microfinance has been unprecedented: during 2006-2008 annual growth rates amounted to 70-100 percent for a number of countries (Sinah, 2010). The number of microfinance service providers has also increased considerably. With the growth of the industry and the saturation of markets, increased competition has been documented in many countries (Porteous, 2006). These recent developments do raise the question what impact increased competition has on the financial and social performance of microfinance institutions (MFIs). Research on this issue is important, especially because many countries have started integrating microfinance into their poverty alleviation strategy. Understanding the effects of competition can guide the design of policies which ensure benefits for the poor as much as possible.

Measurement of performance and productivity has garnered significant interest recently among both academics and practitioners. Much progress has been made on establishing performance management systems (PMSs) which include a portfolio of measures aimed to balance the more traditional, single focus view on profitability. The relationship between competitive strategy and an organization's economic performance is “a controversial, problematic and unresolved issue” (Pearce et al., 2007). Competitive strategy has been associated with the field of strategic management from its earliest foundations. According to Porter (2000) strategists must assess the forces affecting competition in their industry and identify their company's strengths and weaknesses, then strategists can devise a plan of action that may include first, positioning the company so that its capabilities provide the best defence against the competitive force, influence the balance of the forces through strategic moves, thereby improving the company's position, and, anticipate shifts in the factors underlying the forces and responding to them, with the hope of exploiting change by choosing a strategy appropriate for the new competitive balance before opponents recognize it.

A search for empirical literature on the competitive strategy on the performance of micro finance institutions revealed various studies both internationally and locally. Awauah (2011), examined the competitive strategies adopted by banks to achieve competitive advantage in the banking industry in Ghana. The study revealed that the bank has drawn up several strategic

plans and religiously implemented them since 1990. Arasa and Githinji (2014), examine the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study revealed that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies. Kinyuira (2014) evaluated the Effects of Porter's Generic Competitive Strategies on the Performance of Savings and Credit Cooperatives (Saccos) in Murang'a County, Kenya. The study found significant positive effects of cost leadership, differentiation and focus strategies on performance of Saccos and concluded that Saccos that pursue generic strategies can achieve superior performance compared to those that do not. It is clear that no specific study has been carried out on the competitive strategies on the performance of micro finance institutions. This is the gap this study seeks to answer.

The study poses the question: what are the effects of competitive strategy on the performance of Micro Finance Institutions in Kenya? The study sought to answer this question by performing an empirical analysis with a linear regression.This study was guided by the general and specific objectives. The general objective of the study was to evaluate the effects of competitive strategies on the performance of Micro Finance Institutions in Kenya. The specific objectives of the study are:

i. To determine the effect of cost leadership strategy on the performance of Micro Finance Institutions in Kenya.
ii. To establish the effect of the differentiation strategy on the performance of Micro-Finance Institutions in Kenya
iii. To examine the effect of market focus strategy on the performance of Micro-Finance Institutions in Kenya

THEORETICAL REVIEW

This study focused on various theories as discussed below:

Porter's Generic Competitive Strategies

A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership,

differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average, Porter, (2005).

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price, Pearce, (2007).

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment. In differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Motta, (2004).

Resource Dependence Theory

Resource Dependence Theory implies that a particular company's resource allocation has the potential to create conflict and confrontation between the company and the various stakeholders who control the resources it needs (Knyphausen-Aufseß, 1997). Before looking at the question of how the company can reduce uncertainty resulting from potential confrontations with its external environment, it is important to establish possible reasons for such confrontations. One such reason is the fact that the company must acquire resources in order to ensure its own survival. Since these resources are possessed by other groups, the company "must interact with others who control those resources," consequently becoming more dependent on its external environment. This also means that the more interactions or negotiations the company undertakes with its external environment, the more assured it will become in response to its

access to resources, and the more dependent it becomes on the groups which own the resources it needs (Pfeffer and Salancik, 2003).

According to theory, the company is independent from the influences of its external environment if it does not demand any resources from the stakeholders (Pfeffer and Salancik, 2003). Thus, one reason why elements of an environment may have little impact is that the organization is isolated or buffered from them). In the case of, for example, an international multi-business company with a need for additional capital and certain profitable circumstances, this idea appears to be unrealistic. The argument is further supported by the idea of resource scarcity: “If the resources needed by the organization were continually available, even if outside their control, there would be no problem (Pfeffer and Salancik, 2003).

It is clear that a certain level of dependence on the external environment is important for a company’s survival: if the company does not accommodate the interests of its stakeholders, they could react with resistance and pressure which could endanger it (Knyphausen-Aufseß, 1997). In this sense, the quantity of interactions of a particular company with its external environment could indicate the degree of dependence of the company on its external environment. However, the relatively high degree of dependence of the company on its external environment does not save it from potential conflict. The company is constantly being watched by the external groups which control its resources, and are therefore able to influence the entire resource allocation process (Knyphausen-Aufseß, 1997). Considering that conflicts or confrontations could directly lead to an increase in company uncertainty, it is important for the company to be able to accurately interpret its environmental circumstances in order to eliminate, if possible, potential sources of conflict, and to influence how the relevant stakeholders interpret the various processes and functioning of the company.

Resource Based View of Competitive Advantage

The resource-based view (RBV) as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Rumelt, 1984). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf, 1993). Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991). If these conditions hold, the bundle of resources can sustain the firm's above average returns.

The resource based view has been a common interest for management researchers and numerous writings could be found for same. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their

outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Hooley and Greenley, 2005).

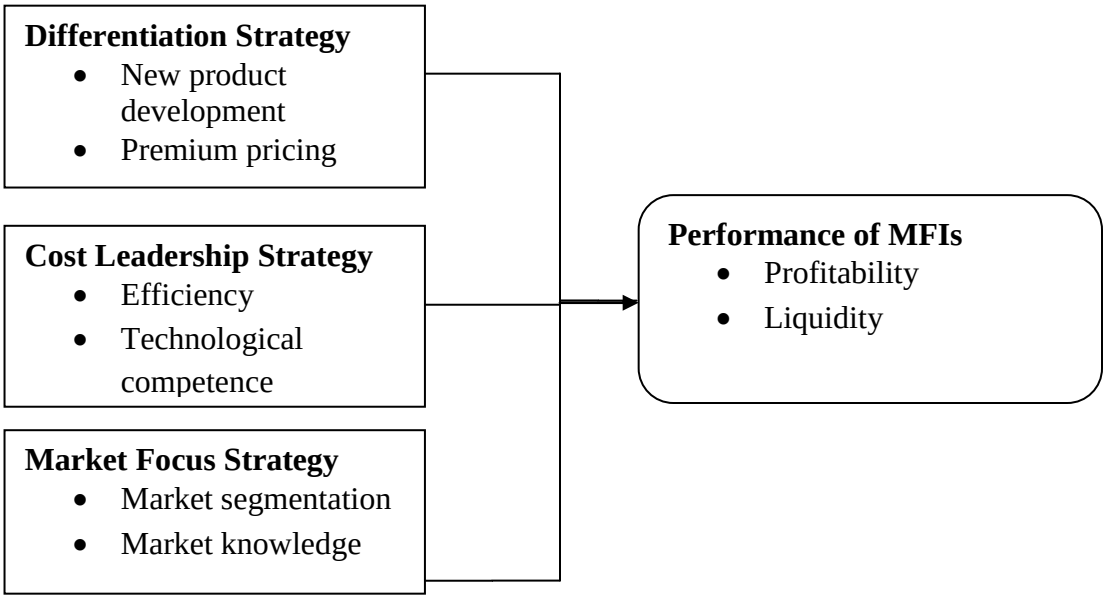
RBV explains that a firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific (by Finney et al. 2004). These authors write about the fact that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare. It also highlights the fact that not all resources of a firm may contribute to a firm's sustainable competitive advantage. Varying performance between firms is a result of heterogeneity of and RBV is focused on the factors that cause these differences to prevail (Lopez, 2005).

RBV provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage. Sustainability of such an advantage will be determined by the ability of competitors to imitate such resources. However, the existing resources of a firm may not be adequate to facilitate the future market requirement, due to volatility of the contemporary markets. There is a vital need to modify and develop resources in order to encounter the future market competition. An organization should exploit existing business opportunities using the present resources while generating and developing a new set of resources to sustain its competitiveness in the future market environments; hence, an organization should be engaged in resource management and resource development (Song et al., 2002). Their writings explain that in order to sustain the competitive advantage, it is crucial to develop resources that will strengthen the firm's ability to continue the superior performance. Any industry or market reflects high uncertainty and, in order to survive and stay ahead of competition, new resources become highly necessary. Finney et al. (2005) agrees, stating that the need to update resources is a major management task since all business environments reflect highly unpredictable market and environmental conditions. The existing winning edge needed to be developed since various market dynamics may make existing value-creating resources obsolete

Conceptual Framework

The conceptual framework illustrates the relationship between the independent variables: differentiation strategy, cost leadership strategy, market focus strategy and how their effect on the independent variable: Performance of MFIs.

Figure 1. Conceptual framework



Research Gap

From the literature review carried out above, it is clear that most of the studies that have attempted to examine the relationship between competitive strategies and firm performance have concentrated on commercial banks. There are very few studies that have focused on MFIs in Kenya and therefore this is the gap that this study seeks to bridge by evaluating the effects of competitive strategies on the performance of MFIs in Kenya.

RESEARCH METHODOLOGY

This research problem was studied through the use of an descriptive research design. The research focused on the effects of competitive strategy on performance of micro finance institutions in Kenya.

The target population of the study was 130 employees of MFIs operating in Kisii town as shown in table 1. The study selected particular staffs including branch manager, finance manager and credit manager from each commercial bank since they are the ones conversant with the effects of competitive strategy on performance of micro finance institutions in Kenya using stratified sampling technique whereby the respondents were stratified into three strata and the respondents picked purposively. The sample size of the study was 65 respondent representing 50% of the entire population. The selection was as shown in table 1.

Table 1: Target Population and Sampling Size

MFI	TARGET POPULATION				SAMPLE SIZE			
	Top Level Mgt	Middle Level Mgt	Lower Level Mgt	**Total**	Top Level Mgt	Middle Level Mgt	Lower Level Mgt	**Total**
1. KWFT	4	8	14	26	2	4	7	**13**
2.SMEP	4	8	14	26	2	4	7	**13**
3.Opportunity Kenya	4	8	14	26	2	4	7	**13**
4.Musomi	4	8	14	26	2	4	7	**13**
5. Kadet	4	8	14	26	2	4	7	**13**
Total	**20**	**40**	**70**	**130**	**10**	**20**	**35**	**65**

Questionnaires were used to collect primary data. These were self-administered. Data was collected using both primary and secondary sources. Assistance was sought from the supervisors and other experts from the University in order to help improve content validity of the instruments.

A pilot study was carried out to pretest and validate the questionnaire. Test-test technique of reliability testing was employed whereby the pilot questionnaires were administered twice to the respondents with one week interview to allow for reliability testing. Cronbach's alpha methodology, which is based on internal consistency was determined and checked against the standard deviation of 0.7. If the calculated Cronbach alpha was greater than 0.7 then the instrument was more reliable but if it is less than 0.7 then it was considered unreliable.

After collection of data and testing for reliability, the questionnaires were edited for completeness and consistency. The data was entered into the Statistical Package for Social Sciences (SPSS) and analyzed using descriptive, correlation and regression analyses.

ANALYSIS AND FINDINGS

inferential statistics was used to discuss the findings of the study, The study targeted a sample size of 65 respondents from which 62 filled in and returned the questionnaires making a response rate of 95.4%, this response rate was satisfactory to make conclusions for the study as Cooper and Schindler (2003), states that a response rate of between 30 to 80% of the total sample size can be used to represent the opinion of the entire population.

Differentiation Strategy

Table 2: Statements relating to effects of differentiation strategy on performance of MFI s

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	mean	standard deviation
Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels.	14	39	8	1	0	1.91	0.25
Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share.	24	35	2	1	0	1.71	0.28
Differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support	15	43	3	1	0	1.86	0.31
The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's	13	45	4	0	0	1.83	0.30

The study sought to determine the extent to which respondents agreed with the above statements relating to differentiation strategy, from the finding majority of the respondents agreed that Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows organizations to charge a premium price to capture market share as shown by a mean of 1.71 and a standard deviation of 0.28, The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's as shown by mean of 1.83 and a standard deviation of 0.30, Differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support as shown by mean of 1.86 and a standard deviation of 0.31, Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels as shown by mean of 1.91 and a standard deviation of 0.25. The above findings concurs with study findings by Reilly (2002) he asserts that Product differentiation fulfills a customer need and involves tailoring the product or service to the customer, this allows

organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price.

Cost Leadership Strategy

Table 3: Statements relating to effects of cost leadership strategy on performance of MFI s

Statement	**Strongly agree**	**Agree**	**Neutral**	**disagree**	**Strongly disagree**	**mean**	**Standard deviation**
achieving a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy	18	38	4	1	1	1.85	0.28
The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage	22	36	4	0	0	1.73	0.27
For an effective cost leadership strategy, a firm must have a large market share	26	30	5	1	0	1.85	0.28
A firm could enjoy low cost leadership through access to raw materials or superior proprietary technology which helps to lower costs	16	40	5	1	0	1.86	0.29

The study sought to determine the extent to which respondents agreed with the above statements relating to cost leadership strategy, from the finding majority of the respondents strongly agreed that; the organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage as shown by mean of 1.73 and a standard deviation of 0.27, achieving a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost

manufacturing, and a workforce committed to the low-cost strategy and that for an effective cost leadership strategy, a firm must have a large market share as shown by mean of 1.85 and a standard deviation of 0.28 in each case , A firm could enjoy low cost leadership through access to raw materials or superior proprietary technology which helps to lower costs as show by mean of 1.86 and a standard deviation of 0.29, the above findings concurs with the study finding by Hyatt (2001). Hyatt asserts that this strategy focuses on gaining competitive advantage by having the lowest cost in the industry thus in order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy. The organization therefore must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage.

Market Focus Strategy

Table 4: Statements relating to effects of market focus strategy on performance of MFIs

Statement	**strongly agree**	**agree**	**Neutral**	**disagree**	**strongly disagree**	**mean**	**Standard deviation**
management should try to focus on their market niche since focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors	13	43	4	2	0	1.83	0.26
market focus strategy expects conformity with the needs of the customers rather than performance because market penetration or market development can be an important focus strategy	12	46	3	1	0	1.76	0.29
By understanding the steps involved when searching for the market, it is better to get a better understanding that a successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors	20	37	4	1	0	1.80	0.28
Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors and that these niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements	18	41	2	1	0	1.81	0.30

The study sought to determine the extent to which respondents agreed with the above statements relating to market focus, from the research findings the study established that majority of the respondents agreed that; market focus strategy expects conformity with the needs of the customers rather than performance because market penetration or market development can be an important focus strategy as shown by mean of 1.76 and a standard deviation of 0.29, By understanding the steps involved when searching for the market, it is better to get a better understanding that a successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors as shown by a mean of 1.80 and a standard deviation of 0.28, Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors and that these niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements as shown by a mean of 1.81 and a standard deviation of 0.30, and finally the study established that management should try to focus on their market niche since focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors as shown by a mean of 1.83 and a standard deviation of 0.26, the finding above concurs with the study findings by Porter, (2005), that A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors market penetration or market development therefore can be an important focus strategy.

MFIs Performance

Table 5: Amount of liquidity the organization gets monthly

Range	Frequency	Percentage
Below 5000	20	32.3
Above 5000	39	62.9
Not specific	3	4.8
Total	**62**	**100**

The study sought to determine the amount of liquidity the organization gets monthly in relation to micro finance institutions performance in Kenya, from the findings, most of the respondents as shown by 62.9% indicated that the organization gets a liquidity monthly ranging above Ksh5000, 32.3% of the respondents indicated that the organization gets a liquidity monthly ranging below Ksh5000 whereas 4.8% of the respondents indicated that they were not specific how much liquidity the organization gets monthly. This is an indication that the organization gets

a liquidity monthly ranging above Ksh5000 concurring with Nandan (2010) that in the context of small business, accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control.

Regression Analysis

The three independent variables that were studied, explain 68.0% of the effects of competitive strategies on the performance of Micro Finance Institutions in Kenya as represented by the R2. This therefore means that other factors not studied in this research contribute 32.0% of the effects of competitive strategies on the performance of Micro Finance Institutions in Kenya. Therefore, further research should be conducted to investigate the other factors to explain the 32% not explained by the factors investigated under this research.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.874	.763	.746	.223

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. from the findings in the above table the value of adjusted r squared was 0.746 an indication that there was variation of 74.6 percent on performance of micro finance institutions due to changes in differentiation strategy, cost leadership strategy and market focus strategy at 95 percent confidence interval. this shows that 74.6 percent changes in performance of micro finance institutions could be accounted to differentiation strategy, cost leadership strategy and market focus strategy. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above is notable that there exists strong positive relationship between the study variables as shown by 0.871.

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.342	1.023		1.312	.001
	X_1	.311	.118	.213	2.636	.002
	X_2	.341	.125	.207	2.728	.000
	X_3	.322	.124	.206	2.597	.001

From the above table the established regression equation was:

$$\mathbf{Y = 1.342 + 0.311X_1 + 0.341X_2 + 0.322\ X_3}$$

Where;

Y = Performance of MFIs

X_1 = Differentiation strategy

X_2 = Cost leadership strategy

X_3= Market focus strategy,

From the above regression equation it was revealed that holding differentiation strategy, cost leadership strategy and market focus strategy to a constant zero, the performance of MFIs would be at 1.342, a unit increase in differentiation strategy would lead to an increase in performance of MFIs by factors of 0. 311, a unit increase in cost leadership strategy would lead to increase performance of MFIs by factors of 0.341, and a unit increase in market focus strategy would lead to increase an in performance of MFIs by a factor of 0.322. All the variables were significant as their significant value was less than ($p<0.05$).

CONCLUSIONS

From the findings the study established that differentiation strategy is positively significant to influence performance of Micro-Finance Institutions thus the study concludes that differentiation strategy had positive influence on the performance of Micro-Finance Institutions in Kenya.

The study established it is useful for the organization to be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage.

The study revealed that a successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors market penetration or market development therefore can be an important focus strategy thus the study concludes that market focus strategy has a positive impact on the performance of Micro Finance Institutions in Kenya

The study found ascertained that that small business accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control thus effective performance of Micro Finance Institutions in Kenya

Recommendations for Practitioners

Based on the findings, the study recommends that the management on Micro Finance Institutions in Kenya should consider adopting differentiation strategy so as to ensure effective

performance of Micro Finance Institutions in Kenya; this will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders and create better decisions.

The study also recommends that is very crucial that the organization take into consideration cost leadership strategy this will help the organization to gather valuable information that will provide valuable insights in the strategy and the necessary input to find effective responses to optimize performance of Micro Finance Institutions in Kenya.

The study recommends that the management keeps on implementing as well as re-assessing the adoption of market focus strategy. This will help to identify whether the adopted counteractive measures are making any acceptable difference as this shall provide guidance to the staff on various types of lending including corporate, SME, consumer, agriculture, etc.

Recommendations for Further Studies

This research had intended to evaluate the effects of competitive strategies on the performance of Micro Finance Institutions in Kenya. Other researcher may focus on the relationship between competitive strategies and financial performance in Micro Finance Institutions in Kenya

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