COMPETITIVE STRATEGIES AND MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA

Gregory Kiprono Bii.
Master of Business Administration (Strategic Management), Kenyatta University, Kenya.
Evans Mwasiaji (PhD).
Lecturer, Department of Business Administration, Kenyatta University, Kenya.

©2023

International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 8th June 2023

Published: 16th June 2023

Full Length Research

Available Online at: http://iajournals.org/articles/iajef_v3_i9_410_425.pdf

Citation: Bii, G. K., Mwasiaji, E. (2023). Competitive strategies and microfinance banks in Nairobi City County, Kenya. *International Academic Journal of Economics and Finance, 3*(9), 410-425.

ABSTRACT

Microfinance Banks globally play a critical role of intermediation by facilitating efficient distribution of financial resources and achievement of monetary policy required for social and economic growth. Given this important function by microfinance institutions that target people especially at the lower levels of the economic ladder, it is imperative for policy makers and other stakeholders to direct real efforts towards ensuring that the said entities remain operational above the statutory requirement, so as to service their financial obligations as they fall due. In Kenya, the year 2021 Central Bank supervisory report indicate a combined loss before tax of Kshs. 877 million as at December 31, 2021, compared to a loss of Kshs.2.2 billion as at December 31, 2020. During the period under review, the microfinance sector closed 28 marketing offices, thus reducing the total number to 63 from 89 in 2020. Using Return on Equity as a metric, their profitability had previously reduced from 27.1% in year 2015 to 25% in 2016. Using Return on Assets as an indicator, the index reduced from 26% in 2015 to 25% in 2016. The Banks' market share reduced to 0.79% in year 2018, as compared to 1.05% in 2014, mostly attributed to increased competition and poor strategic positioning in the market. This made it necessary for Microfinance Banks to review and adjust their business level strategies with a view to enhancing performance. This study therefore sought to examine the operationalized competitive strategies and their influence on the performance of Microfinance Banks in Nairobi City County, Kenya. The Balanced Score card was used to anchor the study, supported by the Dynamic Capabilities theory. The unit of analysis was all the thirteen licensed deposit taking Microfinance Banks in Nairobi City County, while the unit of observation was purposively selected senior management staff in the Finance, Operations and Marketing functions. A structured questionnaire was used to collect relevant data that were analyzed using descriptive statistics, while inferential analysis was used in examining the nature of relationship between the variables. This study with an 84.7% response rate, established that Cost Leadership, Customer Focus and Differentiation Strategies had significantly influenced positively the performance of Microfinance Banks, thus facilitating further opening up of funding opportunities for the vulnerable to improve their living standards. The study recommends that Microfinance Banks should undertake stakeholder management, seek to analyze and exceed customer expectations especially on loan disbursement turnaround time, make their products more attractive by raising loan sizes, enhance loan facility maturity period, and seek to expand their non-interest income sources. The expected study output is improved performance by Microfinance Banks for economic recovery post Covid - 19.

Key words: Competitive Strategies, Performance, Deposit Taking Microfinance Banks

INTRODUCTION

The global microfinance industry in line with the objectives of Sustainable Development Goals (SDGs) has since 2016 continued to focus its efforts on not only promoting financial access to people at the bottom of the social and economic pyramid, but also to education, agriculture, health, energy and housing for the purpose of lifting millions of people out of poverty and propelling economic growth (Chen, Rasmussen & Reille, 2010; Constantinou & Ashta, 2010; Goldberg & Palladini, 2010; Lusweti & Mwasiaji, 2020). Microfinance institutions also provide access to small scale financial products like credit, savings, micro insurance and remittances to star-ups especially those in the small and medium enterprise (SME) sector, considering that lack of access to finance has been identified as a basic problem which hinders the development of SMEs despite their job creation phenomena (Chen, Rasmussen & Reille, 2010; Amran & Mwasiaji, 2019; Milana & Ashta, 2020). This pivotal role by the Microfinance institutions is in the aftermath of the global financial crisis of year 2007 which made it necessary for the sector to put in place measures to hedge itself from the anticipated liquidity crunches, increase in costs of funds and foreign exchange, as well as a sharp rise in portfolio arrears (Goldberg & Palladini, 2010; Gonzalez, 2011; Wagner & Winkler, 2012). Available data however show that many microfinance institutions especially in sub-Saharan Africa underperform and continue to struggle to remain in business (Chikalipah, 2017). According to Bogan (2012) study covering Eastern Europe, Africa, the Middle East, Latin America, East and South Asia for the years 2003 to 2006, Africa had the highest portfolio at risk at 7.03%, unsustainable Microfinance Institutions at 38.03% and the lowest average return on assets at 0.38%. In Kenya, the 2021 Central Bank annual supervisory communication reported a combined loss by the microfinance sector of Kshs. 877 million before tax as at December 31, 2021, compared to a loss of Kshs. 2.2 billion as at December 31, 2020 (Central Bank of Kenya, 2022). The Micro finance Banks' market share reduced to 0.79% in year 2018, as compared to 1.05% in 2014, mostly attributed to increased competition and poor strategic positioning in the market. These kinds of outcomes makes it necessary for Microfinance Banks to continuously scan their operating environment to inform a review of their business level strategies with a view to achieving their desired level of firm performances (Lusweti & Mwasiaji, 2020; Kisuna & Gogo, 2017). Firm performance in this case has been defined variously by different scholars, with some operationalizing it to mean the capacity of an enterprise to effectively utilize its resources as it responds to changes in the operating environment in order to gain and maintain a competitive advantage (Wairimu *et al.,* 2020; Chikalipah, 2017; Bogan, 2012). According to Lusweti and Mwasiaji (2020), performance represents the quantified results of productivity, market presence and process efficiency levels of various activities carried out in a firm during a specified reporting period. In assessing performance, it therefore requires ascertaining the linkage existing between organizational objectives, measurable indicators of performance, the actual results or outcome and the relevance of the performance metrics (Wairimu *et al.,* 2020; Mwasiaji, 2019; Kisuna & Gogo, 2017; Chikalipah, 2017; Waititu, 2014).

One of the Porter's business level generic strategies that many organizations including Microfinance Banks have adopted is the overall cost leadership strategy where an enterprise seeks to offer quality goods and services at low competitive prices (Ngugi & Waithaka, 2020; Gorondutsea & Gawunab, 2017; Josiah & Nygara, 2015). The overall cost leadership strategy therefore seeks to focus on the concept of low process cost as leverage to having a large market share (Wairimu *et al.*, 2020). Another of the generic strategies that organizations can adopt is customer focus strategy geared towards improving firm performance as the case in Australia in which the banking industry and Fast-Moving Consumer Goods (FMCG) industry implemented the same, thus providing end user and customer friendly services that are responsive to their needs (Waititu, 2014; Santos, Perin, Simoes & Sampaio, 2020). According to Watson, Wilson, Smart and Macdonald (2018), customer focus strategy requires a firm to gather relevant information about its customers, creating a relationship with them from a point of knowledge of client product preferences, getting positive and developmental feedback from customers, and then using it to implement strategies that can enhance organizational overall performance. A customer focus strategy therefore enables organizations keep abreast with evolving customer needs (Mohiuddin, 2018; Kavulya, Muturi, Rotich & Ogollah, 2018; Frambach, Fiss & Ingenbleek, 2016). Another of Porters business level generic strategy is differentiation in which organizations seek to produce unique products and positions them in the market in a manner that differentiates them from the competition offering similar or substitute products (Islami, Latkovikj, Drakulevski & Popovska, 2020: Mwasiaji, 2019; Valipour, Birjandi & Honarbakhsh, 2012). The differentiation strategy therefore requires building unique products that stands out in the market in addition to building the organization's brand image regarding quality of service, providing options, operating hours, design etc. (Nuru, 2015; Hill, 2001). Through differentiation strategy, organizations are able to gain competitive advantage which then helps to improve their overall performance (Njroge, 2017; Gorondutse & Hilman, 2017).

To effectively meet changing consumer needs and remain competitive in a globalize business environment is therefore heavily dependent on competitive strategies (Wairimu *et al.*, 2020; Mwasiaji, 2019; Kisuna & Gogo, 2017; Chikalipah, 2017). In the current study, competitive strategies was operationalized to mean overall cost leadership, differentiation and customer focus strategies and assessment of their influence on performance of Microfinance Banks in Nairobi City County, Kenya.

Problem Statement

The Microfinance sector play a critical role of intermediation by facilitating efficient distribution of financial resources globally and achievement of monetary policy required for national economic growth (Lusweti & Mwasiaji, 2020; Kisuna & Gogo, 2017). Given this important function by Microfinance Banks targeting especially the most vulnerable at the lower level of the economic ladder, it is necessary for policy makers and other stakeholders to direct efforts towards ensuring that the said institutions remain operational above the minimum statutory requirement, so as to service their financial obligations as they fall due (Kavulya, Muturi, Rotich & Ogollah, 2018; Amran & Mwasiaji, 2019; Waititu, 2014). This observation is in line with Berry (2017) who argues that enterprises operating in a competitive business environment strive to have enhanced process efficiency geared towards consumer satisfaction and increased market share, resulting in improved financial as well as nonfinancial achievements. Many Microfinance Banks around the world however continue to face challenges in achieving the desired level of performance, despite implementing various strategies (Lusweti & Mwasiaji, 2020; Kisuna & Gogo, 2017). In Kenya for instance, the 2021 Central Bank annual supervisory report indicate a combined loss before tax of Ksh.877 million as at December 31, 2021, compared to a loss of Ksh.2.2 billion as at December 31, 2020 (Central Bank of Kenya, 2022). During the period under review, the microfinance sector closed 28 marketing offices, thus reducing the total number to 63 from 89 in 2020. According to Central Bank of Kenya (2022), ten microfinance Banks registered losses, with key shareholders of Faulu, Rafiki and Uwezo banks finding it necessary to arrange for additional equity capital injection, thus contributed Ksh.1.1 billion, Ksh.500 million and Ksh.300 million respectively, during the period. Previously using Return on Equity as a metric, their profitability reduced from 27.1% in year 2015 to 25% in 2016. Using Return on Assets as an indicator, the index reduced from 26% in 2015 to 25% in 2016. The market share by microfinance Banks also reduced to 0.79% in year 2018, as compared to 1.05% in 2014. This kind of performance have previously been mostly attributed to increased competition and poor strategic positioning in the market, thus inability to attract and retain customers (Kisuna & Gogo, 2017). This is against a backdrop of the overall Kenya's banking sector remaining stable and resilient in year 2021, characterized by sound capital and liquidity ratios. With a sound total capital adequacy ratio at 19.5% in December 2021, above the minimum adequacy ratio of 14.5%, with the liquidity ratio at an average of 56.2% way above the minimum statutory level of 20% in the same period (Central Bank of Kenya, 2022). This kind of performance by the overall banking industry suggests the need for Microfinance Banks to review and accordingly adjust their business level strategies towards market repositioning in an attempt to improve organizational performance in line with industry levels (Lusweti & Mwasiaji, 2020). Numerous studies in different countries around the world reported that competitive strategies are an essential component in adapting to changing circumstances and achieving a competitive advantage, leading to superior performance results (Islami, Latkovikj, Drakulevski & Popovska, 2020; Amran & Mwasiaji, 2019; Berry, 2017; Frambach, Fiss & Ingenbleek, 2016; Birjandi, Jahromi, Darasi & Birjandi, 2014). In the Kenyan context however, there is inadequate data with no empirical unanimity on competitive strategies and performance of Microfinance Banks in Nairobi City County, hence the need for the current study.

LITERATURE REVIEW

Balanced Scorecard

The Balanced Scorecard (BSC) by Kaplan and Norton (1990) is a strategic communication and management tool that was instituted to measure multiple performance indicators, including financial performance, customer perspective, internal business process, learning and growth (Oracle, 2013). These four perspectives represent three major stakeholders of any corporation, namely shareholders, customers and employees (Oracle, 2013). The BSC is therefore useful in enabling enterprises to assess their past performance, current status and preferred future direction (Kisuna & Gogo, 2017). According to Madsen and Stenheim (2015), the analysis and use of BSC varies widely among scholars and practitioners. Due to these interpretive and practice differences, some organizations have used it to achieve various organizational goals, such as improving performance and management, helping executives focus on strategy, structure, vision, and in guiding strategy formulation and implementation (Mwasiaji, 2019). Thus, the BSC model was employed in anchoring the dependent variable in this study on competitive strategies for microfinance banks, having been judged useful since it has successfully been employed in similar previous studies; such as the one on Microfinance Services and Performance of Women Owned Business Enterprises in Busia County, Kenya (Lusweti & Mwasiaji, 2020), and another on Microfinance Services and Performance of Women Owned Small Scale Businesses in Nairobi City County, Kenya (Amran & Mwasiaji, 2019). In another study by Baini and Mwasiaji (2018), the BSC model was used to analyze both the independent and dependent variables employed in assessing the level of achievement after-market strategic repositioning.

The Dynamic Capabilities Theory

The dynamic capabilities theory by Teece, David, Pisano and Shuen (1997) seeks to explain a company's ability to adapt and reconfigure its resources and functional competencies to match the requirements of a rapidly changing environment for competitiveness. In this case, competitiveness is achieved after renewal of processes and gaining a certain or specified level of productivity and efficiency for a better fit with the changing environmental requirements that ensures sustained market presence (Helfat & Peteraf, 2009). Dynamic capabilities theory therefore emphasizes the importance of strategic planning towards the reorientation of an organization's market positioning realized through redesigning existing processes and following through on a specified trajectory in pursuant of performance improvement in line with changing customer expectations and other external dynamics (Tapera, 2016; Helfat & Peteraf, 2009). This implies that business enterprises for instance, that are customer centric in formulating their competitive strategies would have a better chance of effectively utilizing their internal and external resources to improve their performance and market image (Mwasiaji, 2019; Frambach, Fiss & Ingenbleek, 2016). On the other hand, enterprises that do not adjust accordingly in line with environmental conditions would become obsolete and dysfunctional, thus being forced out of the market. Dynamic capabilities theory was judged relevant in anchoring the variables of the current study in terms of how a microfinance bank can reengineer its process to enhance efficiency and support innovations that would result in implementation of lower commodity costs or product differentiation to gain sustainable competitive advantage over its competitors.

Porter's Generic Strategies and Performance

In line with several studies on Porter's (1980) generic strategies, Gorondutsea and Gawunab (2017) reported that market focus, cost leadership and differentiation are vital in elaborating a firm's behavior towards its rivals, and therefore can propel a business enterprise to realize a competitive advantage, hence better performance. The cost leadership strategy for instance puts emphasis on lower cost for firm's activities, including low-priced inputs, which then requires an enterprise to take advantage of purchasing inputs in large quantities as well as how the process is designed (Ngugi & Waithaka, 2020). Minimizing the cost of input may also require utilization of cheaper quality labor whilst the location of the raw materials and storage should be in closer locations for ease of accessibility so as to cut down on transportation and logistics cost (Josiah & Nyagara, 2015; Birjandi, Jahromi, Darasi & Birjandi, 2014). Some authors have identified two different types of low-cost strategy. The first type represents offering services and products in the market to many customers at the lowermost price, while the second type denotes offering the best value market price for a product to an expansive number of customers for economies of scale, hence lower production cost (Wairimu & Kirui, 2020; Valipour, Birjandi & Honarbakhsh, 2012). However, some studies have pointed out that low-cost strategy may not provide lasting competitive edge for business enterprises using best-value or low-cost strategies (Ngugi & Waithaka, 2020; Josiah & Nygara, 2015). It would be important therefore that when pursuing low-cost strategy, business enterprises need to be careful not to aggressive implement price cuts whose implications is considerable lowering of the financial bottom line (Santos, Perin, Simoes & Sampaio, 2020; Mwasiaji, 2019).

Another of Porter's (1980) generic strategies is differentiation which involves providing clients with a valuable commodity experience through service or product uniqueness (Baini & Mwasiaji, 2018; Gorondutse & Hilman, 2017; Hill, 2001). According to Kisuna and Gogo (2017) study, product differentiation can be realized through distinct supply chain, unique product features, brand image, use of technology, marketing target, messaging or through advertising. Differentiation strategy therefore seeks to enable a business enterprise create unrivaled unique products so as to attain brand loyalty by the customers, resulting in a competitive advantage (Islami, Latkovikj, Drakulevski & Popovska, 2020). The third of Porter's (1980) generic strategies is Focus that revolves around precisely targeted customer or specified geographical market or line of product, so as to meet identified customer needs such as distinct financing, inventory or resolving service issues (Waititu, 2014; Santos, Perin, Simoes & Sampaio, 2020). This view on focus strategy is similar to Ngugi and Waithaka (2020) who reported that focus strategy exploits on market development or penetration to meet the needs of secluded geographical location, and usually operationalized where differentiation or cost leadership strategies may not work.

Several studies have been undertaken seeking to examine the nature of relationship between market focus, cost leadership and differentiation, with most of these studies reporting that Porter's (1980) generic strategies play a significant role in enhancing prospects in the market place for business enterprises (Islami, Latkovikj, Drakulevski & Popovska, 2020; Ngugi & Waithaka, 2020; Gorondutsea & Gawunab, 2017; Frambach, Fiss & Ingenbleek, 2016; Birjandi, Jahromi, Darasi & Birjandi, 2014; Hill, 2001). However, different types of research gaps such as contextual, conceptual, methodological or lack of data were identified in the reviewed empirical studies, hence the current the study, where Cost Leadership, Differentiation and Market focus strategies were taken as independent variables that was measured using a 5 Point Likert Scale, to establish their influence on the performance of microfinance Banks in Nairobi City County.

RESEARCH METHODS

Descriptive research design was adopted so as to better bring out the demographic nature of the element or phenomenon in line with the general objective of the study (Kombo & Tromp, 2013; Collis & Hussey, 2014). On variables, the dependent one was performance of Microfinance Banks, while the independent ones were customer focus strategy, differentiation strategy and cost leadership strategy. The unit of analysis was thirteen (13) licensed deposit taking Microfinance Banks in Nairobi City County, while the unit of observation purposively identified through census method were senior management staff including the Departmental Heads and their Deputies in the Finance, Operations and Marketing functions. The senior management executives in the identified departments were judged to be suitable for this study as they had a better understanding of operations in their respective microfinance banks and made operational decisions on strategy implementation in their areas of jurisdiction.

A structured questionnaire with a 5point Likert Scale type items was utilized through drop and pick method to generate data the required data (Kothari, 2004; Kombo & Tromp, 2013; Collis & Hussey, 2014). A pilot test was carried out as part of the process of establishing the reliability of the data collection instrument (Kombo & Tromp, 2013). Cronbach's Alpha was utilized in assessing the dependability of the data collection tool (Kothari, 2004; Collis & Hussey, 2014). Data analysis using descriptive statistics was undertaken using SPSS version 25.0. The degree of significance of each variable's effect on the dependent variable was tested using a 95% threshold of significance on analyzing the variance (Kombo & Tromp, 2013). Data was subsequently presented in tables, graphs and charts. Multilinear regression equation model was used in seeking to determine the link if any between dependent and independent variables of the study (Kothari, 2004; Kombo & Tromp, 2013; Collis & Hussey, 2014).

RESEARCH FINDINGS

Response Rate

The questionnaires handed out for this study were 78 in total and 66 of them were fully completed, indicating a response rate of 84.7%. Thus, the response rate was higher than the threshold proposed by Kombo & Tromp (2013). The findings reveal that 45.68% of the participants were male, while 21.32 were female respondents in the study, ranging between 18 to 60 years old, with a work experience of at least ten years.

Reliability Results

The reliability and internal consistency of the items as per the study variables was judged sufficient after assessment results using Cronbach's alpha coefficient (Kombo & Tromp, 2013; Kothari, 2004). Customer Focus Strategy had Cronbach's alpha coefficient value of 0.764, demonstrating a good reliability level. Differentiation and Cost Leadership Strategies gave a value of 0.764 and 0.735, respectively. The assessment of the dependent variable performance resulted in a coefficient value of 0.832 which was considered to be a high level of reliability. The total instrument score of 0.786, indicates that the tool employed in the study adequately measured the research construct, because they had reliability coefficients exceeding 0.70 threshold level in determining their reliability.

Descriptive Analysis

Measures of variance or dispersion and measurements of central trends (means) were used to display the results (standard deviations). The evaluation of the information gathered was in line with a five-point Likert scale in establishing the level of agreement of the unit of observation as follows; questionnaire (Strongly agree = 1, Agree = 2, Neutral = 3, Disagree = 4, and Strongly Disagree =

5). Results of the descriptive analysis for the study variables have been presented in Tables 5.3.1, 5.3.2, 5.3.3 and 5.3.4 as follows.

Table 5.3.1: Customer Focus Strategy

Statement	N	Percentage					Mean	Std. Deviation
		1	2	3	4	5		
Prioritizing customer needs	66	7.6	3.0	22.7	48.5	18.2	3.6667	1.0573
Customer focus strategy	66	0.0	4.5	6.1	69.7	19.7	4.0455	.6664
Effectively handling customers complaints and customer satisfaction	66	0.0	0.0	13.6	72.7	13.6	4.0000	.5262
Building customers trust	66	0.0	0.0	18.2	60.6	21.2	4.0303	.6317
Prioritizing customer needs and market share	66	1.5	1.5	3.0	69.7	24.2	4.1364	.6768
Average Score	**66**						**3.9758**	**0.7117**

Table 5.3.1 indicates an average mean and standard deviation of 3.6667 and 1.05733 implying that the managers and assistants agreed with the statement that prioritizing customer needs improves performance in the microfinance banks in Nairobi City County, Kenya. The statement that customer focus strategy improves performance in the banks was agreed by the respondents owing to the mean and standard deviation of 4.0455 and 0.6664 respectively. In addition, effectively handling customers' complaints helps enhance customer satisfaction in the banks. This statement was validated by the responses at a mean and standard deviation of 4.00 and 0.5262, respectively. The claim that building customer trust improves the performance of microfinance banks was agreed upon at a mean response of 4.0303 and a deviation from the standard mean of 0.6317. The Prioritization of customer needs to improve market share was agreed upon by the respondents at a mean and standard deviation values of 4.1364 and 0.6768, respectively. Judging by the composite mean and standard deviation of 3.9758 and 0.7117, the customer focus strategy significantly influences the microfinance banks' performance in Nairobi City County, Kenya. These findings are consistent with Kavulya, Muturi, Rotich and Ogollah (2018) study which reported that Sacco's performance is affected by various customer focus strategies. Similarly, according to Mokhtar (2013), any firm wishing to achieve a level of sustained performance must adopt customer attention.

Table 5.3.2: Differentiation Strategy

Statement	N	Percentage					Mean	Std. Deviation
		1	2	3	4	5		
Product differentiation helps improve performance	66	0.0	1.5	7.6	68.2	22.7	4.1212	.5952
Service differentiation enhances market share	66	1.5	1.5	16.7	62.1	18.2	3.9394	.7417
Brand loyalty improves performance	66	1.5	0.0	25.8	47.0	25.8	3.9545	.8121

Product differentiation improves profitability	66	0.0	0.0	4.5	68.2	27.3	4.2273	.5202
Service differentiation improves customer satisfaction	66	0.0	0.0	13.6	63.6	22.7	4.0909	.6007
Average Score	**66**						**4.0667**	**0.6540**

Table 5.3.2 shows that product differentiation helps improve performance as indicated by mean and standard deviation values of 4.1212 and 0.5952 respectively. Additionally, service differentiation enhances market share, having a mean value result of 3.9394 and standard deviation of 0.7417. The respondents also indicated that Brand loyalty improves performance in the banks as indicated by a 3.9545 mean value and 0.8121 standard deviations. The study also established that product differentiation improves profitability as indicated by the majority of the respondents at a mean and standard deviation value of 4.2273 and 0.5202 respectively. The results also show that Service differentiation improves customer satisfaction as captured by the values of mean and standard deviation of 4.0909 and 0.6007 respectively. The composite means of 4.0667 and a standard deviation of 0.6540 affirmed the statement that differentiation strategy has a positive influence on the performance of microfinance banks in Nairobi City County, Keny. These findings concur with research by Gorondutse and Hilman (2017) on differentiation strategy, which concluded that differentiation strategy is typically built around firm- and product-specific creativity and marketing efforts that are either challenging or not too simple to quickly copy. Differentiation strategy enables a firm to acquire and maintain a leadership position in terms of market share (Mwasiaji, 2019).

Table 5.3.3: Cost Leadership Strategy

Statement	N	Percentage					Mean	Std. Deviation
		1	2	3	4	5		
Low operational cost enhances performance	66	1.5	0.0	9.1	75.8	13.6	4.0000	.6076
Minimal labour cost enhances performance	66	0.0	0.0	4.5	72.7	22.7	4.1818	.4933
Low service cost enhances performance	66	3.0	0.0	3.0	62.1	31.8	4.1870	.7690
Low operational cost improves profitability	66	0.0	0.0	4.5	68.2	27.3	4.2273	.5202
Low service cost improves market share	66	1.5	1.5	9.1	71.2	16.7	4.0000	.6794
Average Score	**66**						**4.1192**	**0.6139**

Table 5.3.3 shows that the respondents concurred that low operational cost enhances performance in Microfinance Banks (MFB) at a mean value of 4.00 and a standard deviation of 0.6076, and minimal labour cost enhances performance with mean at 4.1818; std dev .4933. The respondents also indicated that low service cost enhances performance, with mean at 4.187; std dev at .7690. Additionally, the unit of observation indicated that low operational cost enhances performance of MFB with its mean at 4.2273; std dev. at .5202. The respondents also indicated that low service cost improves market share, with the mean at 4.0000; std dev at .6794. The results are somehow

consistent with those of Wairimu and Kirui (2020) study; Birjandi, Jahromi, Darasi and Birjandi (2014) findings, and Valipour, Birjandi and Honarbakhsh (2012).

Table 5.3.4: Organizational Performance of Microfinance Banks

Statement	N	Percentage					Mean	Std. Deviation
		1	2	3	4	5		
The market share increased after implementing competitive strategies	66	0.0	0.0	6.1	69.7	24.2	4.1818	.5236
Higher profitability was recorded after implementing competitive strategies	66	1.5	6.1	12.1	34.8	45.5	4.1667	.9701
Customer satisfaction increased after implementing competitive strategies	66	0.0	7.6	9.1	39.4	43.9	4.1970	.8982
Microfinance performance has increased over the years	66	6.1	1.5	12.1	31.8	48.5	4.1515	1.0988
Average Score	**66**						**4.1743**	**0.8727**

Table 5.3.4 shows that market share improved due to the three employed competitive strategies with a mean of 4.1818 and std dev at 0.5236. The results also shows that higher profitability was recorded after implementing the competitive strategies with mean at 4.1667 and std at .9701. The three employed competitive strategies had an influence on improved customer satisfaction with mean at 4.1970, std dev at .8982. The implementation of the three competitive strategies therefore enhance performance of Microfinance Banks with mean at 4.1515 and std dev >1.00. This finding is consistent with Johnson (2016) study, and that by Frambach, Fiss and Ingenbleek (2016) study which concluded that competitive strategies are an important driver of organisational performance.

Inferential Analysis

Analysis of regression was applied in seeking to establish any associations among the three independent (cost leadership, Differentiation and Focus) and one dependent variable (performance) of the study. This was found necessary so as to determine how variation in one or more study variables influenced changes in the other variables. A regression coefficient for each independent variable was judged necessary so as to indicate the strength and direction of the any relationship between that independent variable and the dependent variable. Using SPSS version 25.0, the model summary, analysis of variance, ANOVA and regression coefficients were created.

Correlation Results

The study ascertained the influence of cost leadership, Differentiation and Focus on performance of Microfinance Banks in Nairobi City County as presented in Table 5.4.1.1.

Table: 5.4.1.1: Correlation Results

	Performance	Customer Focus Strategy	Differentiation Strategy	Cost Leadership Strategy
Performance	1			
Customer Focus Strategy	.322**	1		
	.008			
Differentiation Strategy	.478**	.643**	1	
	.000	.000		
Cost Leadership Strategy	.594**	.429**	.506**	1
	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

Table 5.4.1.1 shows that the relationship between independent and dependent variable was significantly positive.

Model Summary

The summary of the regression model is indicated in Table 5.4.1.2 depicting the values of R, the R-square, and R-square adjusted.

Table: 5.4.2.1: Correlation Results

Model	R	R Square	Adjusted R Square
1	.763[a]	.639	.613

Table 5.4.1.2 shows that the value of R indicated that competitive strategies have a high degree of association with the performance of microfinance banks at 0.763. With regard to this association, the coefficient of determination showed that competitive strategies (customer focus, differentiation, and cost leadership) significantly change the performance of microfinance banks by 63.9% when any of the variables change by a percentage. Taking into account the manner in which the performance of the microfinance banks changes, it is explained to the tune of 61.3% if any of the repressors changes by a unit.

ANOVA

The linear connection between the independent variables under consideration was determined using Analysis of Variance (ANOVA) as tabulated. This approach allowed for the calculation of degrees of freedom, df, mean square, estimated value of F, and its level of significance.

Table: 5.4.2.2: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	44.944	3	14.981	13.615	.000[b]
	Residual	68.223	62	1.100		
	Total	113.167	65			

The model significance value, ($p < 0.05$) between the study's variables, which indicates a 95% probability, which is less than alpha =0.05 hence statistically significant in predicting how numerous factors impact the performance of Microfinance Banks in Nairobi City County, Kenya.

Table: 5.4.2.3: Coefficient Estimates for the Variables

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.161	.546		-2.124	.038
	CFS	-.115	.249	-.060	-.461	.647
	DS	.447	.224	.272	1.993	.051
	CLS	1.087	.261	.482	4.165	.000

$$Perf = -1.161 - 0.115X1 + 0.447X2 + 1.087X3 + \varepsilon$$

Where:

Perf = Performance
CFS = Customer Focus Strategy
DS = Differentiation Strategy
CLS = Cost Leadership Strategy

Summary, Conclusion and Recommendations

Microfinance Banks play a critical role of intermediation by facilitating efficient distribution of financial resources and achievement of monetary policy required for national economic growth. This study sought to examine the operationalized competitive strategies and their influence on the performance of Microfinance Banks in Nairobi City County, Kenya. This study with an 84.7% response rate, established that cost leadership, customer focus and differentiation strategies had significantly and positively influenced the performance of Microfinance Banks, thus facilitating further opening up of funding opportunities for the vulnerable to improve their living standards. The study recommends that Microfinance Banks should undertake stakeholder management, continually analyze and seek to exceed customer expectations especially on loan disbursement turnaround time, raising loan sizes, maturity period and the need to expand their non-interest income sources. The expected study output is improved performance by microfinance banks for economic recovery post Covid - 19.

REFERENCES

Amran, C. N. & Mwasiaji, E. (2019). Microfinance Services and Performance of Women Owned Small Scale Businesses in Nairobi City County, Kenya. *International Academic Journal of Economics and Finance. 3(3), 267-285.* ISSN 2366 – 3987

Baini, R.G. & Mwasiaji, E. (2018). Strategy Implementation Practices and the Performance of Higher Education Loans Board in Kenya. *International Academic Journal of Human Resource and Business Administration. 2(4), 332-352.* ISSN 2518 - 2374

Berry, F. S. (2017). Strategic planning as a tool for managing organizational change. *International Journal of Public Administration, 30*(3), 331-346.

Birjandi, H., Jahromi, N. M., Darasi, S. M., & Birjandi, M. (2014). The Effect of Cost Leadership Strategy On ROA and Future Performance of Accepted Companies in Tehran Stock Exchange. *Research Journal of Finance and Accounting,* 5(70, 152 – 158

Bogan, V.L. (2012). Capital Structure and Sustainability: An empirical study of microfinance institutions. The Review of Economics and Statistics, 94(4), 1045-1058. https://doi.org/101162/REST a 00223

Central Bank of Kenya. (2022). *Bank supervision annual report 2021*. Available online at: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/2009197617_2021%20Annual%20Report.pdf

Chen, G., Rasmussen S. & Reille, X. (2010) Growth and Vulnerabilities in Microfinance. CGAP Focus Note, 61, February. http://www.cgap.org/sites/default/files/ CGAP-Focus-Note-Growth-and-Vulnerabilities-in-Microfinance-Feb-2010.pdf

Chikalipah, S. (2017). Financial sustainability of microfinance institutions in sub=Saharan Africa: Evidence from GMM estimates. Enterprise Development and Microfinance, 28(3), 182-199. https://doi.org/103362/1755-1986.16-00023

Collis, J. and Hussey, R. (2014). Business research: A practical guide for undergraduate and postgraduate.

Constantinou, D. & Ashta, A. (2010). Financial Crisis: Lessons from Microfinance. Strategic Change: Briefings in Entrepreneurial Finance, Vol. 20, Nos. 5/6, pp. 187-203.

Davidson, S., (2008). *Seizing the competitive advantage*, *Community Banker*, Vol. 10 No.8, pp.32-4.

Frambach, R. T., Fiss, P. C., & Ingenbleek, P. T. M. (2016). How important is customer orientation for firm performance? A fuzzy set analysis of orientations, strategies, and environments. *Journal of Business Research*, 69(4), 1428-1436. http://dx.doi.org/10.1016/j.jbusres.2015.10.120.

Goldberg, M, & Palladini, E, (2010) Managing risk and creating value with microfinance, The International Bank for Reconstruction and Development / The World Bank. Available online at: https://openknowledge.worldbank.com/handle/10986/2442

Gorondutsea, A. H. & Gawunab, M. S. (2017). Cost leadership strategy and performance of hotels in Nigerian context. *Journal of Applied Structural Equation Modeling, 1*(1), 1-12.

Gorondutse, A. H. & Hilman, H. (2017). Influence of Differentiation Strategy on Performance of Hotels: The Moderating Role of Environmental Munificence. Journal of Business and Retail Management Research, 11 (4), 2017

Gonzalez, A. (2011). An empirical review of the actual impact of financial crisis and recessions on MFIs, and other factors explaining recent microfinance crisis. Micro Banking Bulletin, 08/11.http://www.themix.org/sites/default/files/MBB-%20 Lessons%20for%20strengthening%20microfinance%20instutions.pdf

Helfat, C., & Peteraf, M. (2009). Understanding dynamic capabilities: Progress along a developmental path. *Strategic Organization*, *7*(1), 91.

Hill, C.W., (2001), "Differentiation versus low cost or differentiation and low cost: a contingency framework", *Academy of Management Review*, Vol. 13 No.3, pp.401-12.

Islami, X., Latkovikj, M. T., Drakulevski, L. & Popovska, M. B. (2020). Does Differentiation Strategy Model Matter? Designation of Organizational performance using Differentiation Strategy Instruments- An Empirical Analysis. Verslas Teorija ir Praktika, 21 (1): 158 – 177

Johnson, G. (2016). *Exploring strategy: Text and cases*. Pearson Education.

Josiah, N.M. & Nyagara, N. I. (2015). Assessment of the Effect of Cost Leadership Strategy on the Performance of Liquefied Petroleum Gas Companies in Eldoret Town, Uasin Gishu County, Kenya.

Karnani, A., 1984. Generic competitive strategies: an analytical approach. *Strategic Management Journal* 5, 367–380.

Kavulya, P. W., Muturi, W., Rotich, G. & Ogollah, K. (2018). Effect of customer focus strategy on the performance of Saccos in Kenya. *International Journal of Business Strategies, 3*(1), 1-16.

Kisuna, P. M. & Gogo, J. (2017). An Analysis of Competitive Strategies Employed in Microfinance Institutions: A Case of Kenya Women Finance Trust. Journal of Business and Strategic Management, 2 (3): 78 – 100, 2017

Kombo, K. & Tromp, A. L. (2013). Proposal and Thesis Writing. An Introduction. Nairobi. Paulines Publication Africa.

Kothari, C.R. (2004). *Research Methodology: Methods and Techniques.* 2nd Edition, New Age International Publishers, New Delhi.

Lusweti, C.B. & Mwasiaji, E. (2020). Microfinance Services and Performance of Women Owned Business Enterprises in Busia County, Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting, Volume 2, Issue 3, 2020 PP 24-37, ISSN 2707-8035* DOI: 10.35942/ijcfa.v2i3.151

Milana, C., & Ashta, A. (2020). Microfinance and financial inclusion: Challenges and opportunities. Strategic Change, 29(3), 257–266.

Mokhtar, S.M.M. (2013). The effects of customer focus on product performance. Business *Strategy Series, 14*(2/3), 67-71

Mwasiaji, E. (2019). Indicators of Competitive Advantage in the Context of Small and Medium Enterprises: A Review of Literature: The *International Journal of Business and Management, 7(12), 1-10. ISSN: 2321-8916.* DOI No. 24940/theijbm/2019/v7/i12/BM1912-004

Ngugi, N. S. & Waithaka, P. (2020). Cost Leadership Strategy and Organizational Performance: A Case of Insurance Companies in Nyeri County, Kenya. International Academic Journal of Human Resource and Business Administration, 3 (9): 256 - 267

Oracle (2013). The role of moderating factors in user technology acceptance, *Journal of Human-Computer Studies*, 64(1), 53-78

Porter, M.E. (1980). Competitive Strategy: Technique for analyzing industries and Competitors. Free Press, New York.

Santos, M. J., Perin, M. G., Simoes, C. & Sampaio, C. H. (2020). Customer Orientation and Financial Performance Relationship: The Mediating Role of Innovative Capability. Gestao & Producao , 27 (4), e4706

Tapera, J. (2016). The importance of strategic management to business organizations. International Journal of Social Science Management. Retrieved from https://www.researchgate.net/publication/301801352

Teece, David J.; Pisano, Gary; Shuen, Amy (August 1997). "Dynamic capabilities and strategic management". *Strategic Management Journal*. 18 (7): 509–533

Valipour, H., Birjandi, H. & Honarbakhsh, S. (2012) The Effects of Cost Leadership Strategy and Product Differentiation Strategy on the Performance of Firms. *Journal of Asian Business Strategy*, *2*(1) 14-23.

Wagner C. & Winkler, A. (2012). The vulnerability of microfinance to financial turmoil – evidence from the global financial crisis. Frankfurt School of Finance & Management, draft version 04/12. http://economics.soc.uoc.gr/macro/docs/Year/2012/papers/paper_2_74. pdf

Waititu, G. T. (2014). An Assessment of Customer Centric Strategy on the Performance of Commercial Banks in Kenya. Unpublished MSc Thesis, United States International University - Africa

Wairimu, M. R. & Kirui, C. (2020). The Influence of Cost leadership Strategy on the Performance of Tea Processing Factories in Murang’a County, Kenya. International Journal of Research and Innovation in Social Science 4(8), 2020