COMPETITIVE STRATEGIES AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN MURANG’A COUNTY, KENYA

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MARCH, 2018
DECLARATION

Declaration by candidate:

This project is my original work and has not been presented for a degree in any other University.

…………………………………..                 ………………………………..

Signature                                  Date

Caroline Muhonja Kela-Kahingo

Declaration by supervisor:

I confirm that the work in this project was done by the candidate under my supervision

……………………………………….                    ………………………………

Signature                                  Date

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DEDICATION

I dedicate this research project with a lot of humility to my parents Mr. Charles Kela Inanga and the Late Mama Bilha Kheseri Kela, for the sacrifices you made to give me the foundation for this MBA. I also dedicate this project to my husband, Robinson Kahingo Gakiri: thank you for being a true friend and supporting my dreams. To my daughters, Vivienne Kahingo, Cheryl Kahingo and Charlene Kahingo: May you dream big dreams and have the courage to pursue them. Mum has set the pace.
ACKNOWLEDGEMENT

I acknowledge the Almighty God for the grace and favour that enabled me to undertake this MBA programme, and for the completion of this research project. Secondly, I acknowledge with a lot of gratitude my supervisor, Dr. Paul Waithaka for his invaluable guidance and support while I was writing this project. Thank you for always being available. May God bless you. I also want to also thank all my course lecturers during my study. I also acknowledge the tremendous support, encouragement and prayers from my dad, brothers and sisters; my husband Robinson Kahingo, my daughters Vivienne, Cheryl and Charlene thank you all your support. Without you I would not have made it. Finally, I would like to acknowledge Mr. Davies Imbuka, Mr. Meshack Oketch and other friends for their support and encouragement.
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ABBREVIATIONS AND ACRONYMS

ACCA  Association of Chartered Certified Accountants
CGAP  Consultative Group to Assist the Poorest
DTM   Deposit Taking Microfinance
EIU   Economic Intelligence Unit
ICT   Information Communication Technology
KWFT  Kenya Women Finance Trust
MFIs  Microfinance Institutions
MFR   Micro Finanza Rating
NGO   Non-Government Organizations
R & D Research and Development
SACCO Savings and Credit Cooperative
SME   Small and medium enterprises
SMEP  Small and Medium Enterprise Programme
### OPERATIONAL DEFINITION OF TERMS

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<th>Term</th>
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<td>Competitive strategies</td>
<td>Plans used by organizations to overcome their business rivals.</td>
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<td>Cost leadership strategy</td>
<td>The organization sells the available products or services to more customers at a lower price than its competitors.</td>
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<tr>
<td>Differentiation strategy</td>
<td>The organization offers unique products/services to its customers who are willing to pay higher prices for them.</td>
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<td>Focus strategy</td>
<td>The organization offers its products/services to specific market segments based on different demographics like geographical locations, age and gender.</td>
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<td>Microfinance institutions</td>
<td>Organizations offering banking services to the poor.</td>
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<td>Outreach</td>
<td>Current active members served by a microfinance institution.</td>
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<td>Product development strategy</td>
<td>The organization uses innovation to create premier products/services for its customers.</td>
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<td>Sustainability</td>
<td>The ability of a microfinance institution to continue running its programmes in the long-term.</td>
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ABSTRACT

Microfinance institutions play an important role in poverty alleviation because they serve to enable the financial inclusion of the poor people. It is through such institutions that these people can access financial services like credit, savings, money transfer and insurance. The microfinance industry has witnessed intense competition in the recent decades as the industry becomes mature. Due to this, attention has shifted to their sustainability; which is important to ensure that the poor would still be able to access these services in the future. To be able to grow and survive, MFIs need to formulate and implement appropriate competitive strategies that would assist them in achieving a competitive advantage. This study sought to examine the effect of competitive strategies on sustainability of MFIs in Murang’a County, Kenya. The specific objectives were: to investigate the effect of cost leadership, focus, differentiation and product development strategies on sustainability of MFIs in Murang’a County. The study was anchored on the following theories: Porter’s generic competitive strategies, Ansoff’s market/product development model and the resource-based theory. The study employed a descriptive survey research design. The target populations were the senior managers in the 20 MFIs in the county, who included the branch managers, operations managers and senior credit officers. Due to the manageable number of target population, a census survey was adopted. Self-administered questionnaires were used to collect data, using the drop-and-pick method which gave respondents ample time to fill the questionnaire. The reliability of the instrument was tested using Cronbach’s alpha. The reliability of 0.7 showed that the instrument was reliable. Data analysis was done using both descriptive and inferential analysis. Descriptive analysis was done to summarize the data; while inferential analysis such as Pearson’s Product-Moment correlation and multiple regression analysis was used to examine the relationship between the independent variables (cost leadership, focus, differentiation and product development) and dependent variable (sustainability of MFIs). The responses were presented in form of tables, charts and diagrams. The correlation analysis revealed that cost leadership, focus, differentiation and product development strategies all had a positive and moderate relationship with sustainability of MFIs. This study is significant to MFI owners and managers, scholars and the donors and government. To the MFI owners and managers, the findings of the study highlight the need to adopt competitive strategies to achieve success and sustainability of MFIs hence ensuring the continued provision of financial services to the poor. For the scholars and researchers, since the findings of this study reveal that product development is the least competitive strategy to predict MFI sustainability, future studies may be interested in investigating how the MFIs may have adopted market/product development strategy to achieve sustainability. For the donors and government, the findings can be used in designing capacity building programmes for MFI owners and managers to help empower them, so that they can help their institutions to achieve sustainability; thus ensuring a continuance of their financial services to the poor and those from low economic group. For MFIs to achieve sustainability, the study recommends that the MFI managers need to continue adopting cost leadership, focus and differentiation strategies. However, there is need to improve on the adoption of product development strategies in order to meet the needs of an ever-increasingly demanding customer. The study concludes that there is a need for MFIs to adopt competitive strategies so that they can continue providing financial services to the poor. Finally, the study also recommends that future studies should be conducted in other counties for comparative purposes.
CHAPTER ONE

INTRODUCTION
This chapter presents an introduction to the study. It covers the background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, limitations of the study and the organization of the study.

1.1 Background of the Study
Microfinance institutions provide financial services to low-income poor and the very poor self-employed people (Otero, 1999). They provide all types of financial intermediation services such as savings, credit, funds transfer, insurance and pension remittances provided to low-income households and enterprises in both urban and rural areas, including employees in public and private sectors and the self-employed (Robinson, 2003). Ayele (2014) posits that many formal banking institutions don’t provide financial services to the poor because they are considered high-risk borrowers, their loan sizes are too small requiring high transaction costs; they cannot present high valued collaterals and their income sources are highly unstable.

Microfinance sustainability refers to the ability of a microfinance institution to continue running its programmes in the long-term. The Consultative Group to Assist the Poorest (CGAP, 2004) describes sustainability as the ability of a microfinance provider to cover all its costs which allows for its continued operation and the ongoing provision of financial services to the poor. This, therefore, refers to the probability that the MFI will continue to operate in the future (Yaron, 2005). Various scholars (Schreiner, 2000; CGAP, 2004; Hollis & Sweetman, 2007; Guntz, 2011) concur that the sustainability of MFIs is imperative if their
main objective of reaching poor households with the provision of financial services is to be met. Continuance of MFIs programmes to poor households will have a lasting impact on poverty alleviation (Tehulu, 2013) while those that are unsustainable will not help the poor in the future because they will be gone (Schreiner, 2000).

Many factors threaten the sustainability of MFIs in Kenya. One of these is the intense competition that has been spurred by a high growth rate, coupled with the entry of individual investors and formal banking institutions as major players in microfinance; which threatens the survival and ultimately the impact of MFIs. Since MFIs provide financial products to the poor, a low loan repayment rate also threatens their sustainability (Rosenberg, 2009). Pollinger, Outhwaite and Codero-Guzman (2007) identify three stages that MFIs undergo to achieve sustainability. The first stage, survival, occurs when the MFIs can hardly cover their operational costs. Sustainability is the second stage where the MFIs’ operations rely on the subsidies, donations and grants from the donor community. Self sufficiency is the last stage which is when the MFI is able to generate enough income to cover all its costs. Since competition can only get stiffer, the microfinance industry needs to adopt competitive strategies to achieve a competitive advantage. A competitive advantage drives profitability and ultimately, an MFI will achieve sustainability.

1.1.1 Competitive Strategies

Competitive strategies are plans used by organizations to overcome their business rivals by gaining a competitive advantage over them. Tanwar (2013) posits that competitive strategies involve taking offensive or defensive actions to create a defendable position in the industry. Thompson, Strickland and Gamble (2009) state that a competitive strategy encompasses all
actions undertaken by a firm to attract customers, withstand pressure from competitors and improve its market share. Porter (1980) maintains that the choice of competitive strategies to be employed is motivated by a push to maintain a competitive advantage by meeting and even exceeding customers’ expectations, thus ensuring the continuance of the activities of the firm.

A competitive advantage is essentially the search for a favourable competitive position in an industry and aims to establish a profitable and sustained position against the forces that determine industry competition (Porter, 1985). A company is said to have a competitive advantage over its rivals when its profitability is greater than the average profitability and profit growth of other companies competing for the same set of customers (Hill & Jones, 2010). The effective choice and implementation of competitive strategies ultimately translates into a competitive advantage and thus better performance of the firm. Thompson et al., (2009) maintain that a company achieves a sustained competitive advantage when a sizeable number of buyers show a long-term preference for its products or services over its competitors.

Porter (1980) postulated three generic strategies that can be applied in any industry regardless of size to enable firms to achieve this sustained competitive advantage. These strategies are cost leadership, differentiation and focus strategies. In a cost leadership strategy, the firm strives to be the lowest-cost producer in the industry that serves a market dominated by price-sensitive buyers (Thompson et al., 2009). It is a strategy that focuses on efficiency and the production in large quantities of standard products, which enable the firm to take advantage of economies of scale (Tanwar, 2013). Some of the means to achieve this
include improving process efficiencies, production of high volumes of output or maintaining low overhead costs such as distribution, R&D, advertising and controlling the need for differentiation (Hill & Jones, 2010). When a firm lowers its cost structure, it achieves higher profits than its rivals because its production costs are lowered and it is also able to charge lower prices than the competition to compensate for slightly lower quality (Porter, 1985).

In a differentiation strategy, a firm offers unique products that are valued by customers who are not price-conscious and are therefore willing to pay a premium price because they perceive those products to be better than or are different from those of the competition (Porter, 1980; Hills & Jones, 2010). A firm may use many features to make sure its products and services are unique. This can be based on the design, brand image, technology, product features, dealers, network or customer service (Tanwar, 2013). According to Kavale, Mugambi and Namusonge (2014) a differentiation strategy is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy. Differentiation drives profitability because it enables the firm to ask a premium price, sell more units to additional customers attracted by the unique features, and profit from buyer loyalty to its brand (Thompson et al., 2009).

A firm adopts a focus strategy when it concentrates its efforts on a specific segment of the market (Porter, 1980). The firm then pursues either a cost leadership or differentiation strategy. In focused cost leadership, the firm competes against the cost leader in the market segment where it can operate at no cost disadvantage. In focused differentiation, the firm
combines differentiation and a narrow market segment and specializes in making products that are distinctive and specific to that market (Hills & Jones, 2010). One advantage of a firm pursuing focus strategy is in having power over buyers because the firm could be the sole supplier, as such reducing the buyers’ bargaining power (Porter, 1980).

Firms use the new product development strategy to increase their market share using either a product that already exists or by creating new products that will fit the demands of the market. New product development, sometimes referred to as product innovation, involves creativity and innovation. Product innovation includes the modifications and partial changes in shape or product features of old products to meet the needs in the market and using new techniques in the production process (Reguia, 2014). Product development should always be based on the defined demands of the current and potential clients (Njuguna, 2008).

1.1.2 Sustainability of Microfinance Institutions

In microfinance sustainability refers to the long-term continuation of the microfinance programme after the project activities have been discontinued (Ahlin & Lin, 2006). This means that MFIs can only be said to sustainability when their programmes are available over a continuous period and they meet their objectives. The Consultative Group to Assist the Poorest (CGAP, 2004) describes sustainability as the ability of a microfinance provider to cover all its costs which allows for its continued operation and the ongoing provision of financial services to the poor, while Guntz (2011) maintains that it is the ability of an MFI to continuously carry out activities and services in pursuit of its statutory objectives. According to Mungai, Maingi and Muathe (2014) a programme achieves sustainability when it continues with its activities for a long time while endeavouring to achieve its objectives.
Most of the MFIs have an objective of poverty eradication by providing financial services to the poor. Various dimensions of sustainability include: financial, institutional, market, legal policy, environment, and impact sustainability, (Coblentz, 2002; Ahlin & Lin, 2006; Ruedig & Metzger, 2013). Yaron (2005) identifies typical performance indicators which reflect an MFIs sustainability as the volume of lending, average size of loan as a percentage of the poverty line, percentage of loans granted to women, annual rate of growth of loan portfolio and savings service.

The provision of financial services to poor households still remains the mission for many MFIs. However, this can only be achieved if they are sustainable thus ensuring a continuance of their programmes (Schreiner, 2000; Hollis & Sweetman, 2007; Guntz, 2011). This is because sustainable MFIs can reach more poor people, hence ensuring that they continue to access financial services (Ek, 2011). Continuance of MFIs programmes to poor households will have a lasting impact on poverty alleviation (Tehulu, 2013). By providing financial services to the poor, the MFIs contribute to their economic empowerment. On the other hand, unsustainable MFIs will not help the poor in the future because they will be gone (Schreiner, 2000).

To ensure that microfinance services are available to clients, proper systems and processes must be put in place. For MFIs to achieve sustainability, therefore, there is need to adopt a demand-driven approach in the way products and services are provided, and incorporate efficiency in processes and programmes. The MFIs need to reduce transaction costs, offer better products and services that meet clients’ needs, and ultimately find innovative ways to reach the poor people who have been left out of banking services; they need to understand
that these people need other financial services that are appropriate, flexible and affordable. These services can include savings, transfer of cash and insurance (CGAP, 2004).

### 1.1.3 Competitive Strategies and Sustainability of Microfinance Institutions

The turbulent nature of the global business environment mainly driven by the fast innovations in technology and rapid globalization has pushed competition to new heights. This competition can either break or make any organization. Porter (1985) affirms that competition is at the core of success or failure of firms. It, therefore, calls for organizations that want to be successful to be strategically aware and respond to both opportunities and barriers (Papulova & Papulova, 2006). Empirical research has shown that making MFIs sustainable in the long term is a challenge. Pollinger, Outhwaite and Cordero-Cuzman (2007) in their study on the sustainability of MFIs in the USA assert that despite the interest in the microfinance sector and subsidies that have flowed into mission-oriented MFIs, it appeared challenging to make MFIs viable over a long time. The study found that although there were more than 500 Microfinance organizations in the United States, with 200 lending capital and providing support to microenterprise, majority were less than ten years old.

Outreach in microfinance refers to efforts aimed at financial inclusion of people who have not been able to access formal financial services (Ngomo, 2012). The two dimensions of outreach are depth and breadth of outreach. The depth of outreach examines the poverty levels of the clients served by an MFI (Rosenberg, 2009). This is because, for most MFIs, their mission remains to avail financial services to the poorest people considered as not being able to afford traditional banking by formal financial institutions. One indicator of the
depth of outreach is the average loan outstanding balance, which is roughly related to client poverty because better-off clients will not be interested in smaller loans or deposit accounts (Rosenberg, 2009; Cull et al., 2007). The smaller average loan size is taken as an indication of better outreach to the poor (Cull et al., 2007). On the other hand, breadth of outreach refers to the number of clients or accounts that are active at a particular time (Rosenberg, 2009). It includes all borrowers, depositors and any other clients currently served by an MFI. Ngomo (2012) stated that another indicator of the breadth of outreach is the increase in the number of branch network and staff employed over time. MFIs can only contribute to poverty alleviation if the outreach of MFIs is sustainable and on an efficient basis (Guntz, 2011).

The International Monetary Fund (2007) argues that MFIs that have become sustainable are usually large efficient institutions which do not target the very poor because focusing on the very poor makes the MFIs dependent on donor funding. Wrenn (2005), however, maintains that an MFI can still achieve both sustainability and depth of outreach if its programmes are managed professionally and completely does away with subsidies. Arodi (2013) states that some of the indicators that can be used to measure outreach are average loan size, branch network and its distribution geographically; the percentage of women clients, and the total number of clients served by the MFI.

The rate of loan repayment (portfolio quality) can also be used to evaluate the financial sustainability of an MFI because the default rate determines the lending in future (Khandker & Khalily, 1995). As such it is a very important indicator of performance (Rosenberg, 2009). A successful and sustainable MFI will typically post good loan repayment rates.
Financial unsustainability, on the other hand, could be caused by low rates of loan repayments or when funds expected from donors are unavailable (Rosenberg, 2009). Financially viable MFIs can reach more clients hence contributing to poverty alleviation (Muthomi, 2015).

In a study on the factors influencing loan repayment in MFIs in Kenya, Angaine and Waari (2014) found that there is a high repayment default rate (51.4 %) attributed to such factors as borrowers and lending institutions characteristics, suitability of financial products, and other macro credit factors like economic, political and the business environment in which the borrower is operating. This supports earlier findings by Ngomo (2013) that non-performing loans are a common challenge for MFIs in Kenya.

1.1.3 Microfinance Institutions in Kenya
Kenya ranks first in Africa and fifth in the world in selected 55 countries known for microfinance business in the world (EIU, 2013). The microfinance sector comprises of a large and diverse group of institutions which can be grouped into informal, formal subsidized and formal non-subsidized, (Dondo, 2007). The informal category is made up of grass root organizations based on membership and mainly deals with savings. The formal subsidized category includes organizations that have been formally registered, but whose financial operations are not regulated. The last category, the formal non-subsidized, is predominantly made up of SACCOs, 4banks that have downscaled and one savings only bank, Post Bank.

The microfinance sector remains largely dominated by banks, particularly Equity Bank, which represents (72%) of the sector’s total assets (AMFI& MFR, 2013). By the end of
2012, 4 banks, 7 DTMs and 21 Credit-Only MFIs accounted for 85%, 11% and 14% of the sector’s total assets. Most of the borrowers are women; however, their numbers have been decreasing. Various credit products are offered in specific segments such as business, agriculture, consumer segment which includes health and education, asset finance, housing and green products, (AMFI & MFR, 2013). Although the sector has experienced a positive growth rate, financial inclusion remains a challenge for Kenya with (33%) of the population still excluded from access to financial services, (ACCA, 2011).

High competition in the sector is mainly caused by downscaling commercial banks, expansion of 6 microfinance service providers both in the formal and informal sectors, SACCOs that have penetrated deeply into rural areas; and entry of new players in DTM segment, SACCOs and the informal sector. AMFI and MFR, 2013 cited 2 factors that have contributed to increased competition in the sector. One, the amendment of the Microfinance Act led to the expansion of services that could be provided by DTMs. Two, technological innovations have targeted outreach and cost-effective service delivery. However, one of the challenges now and in the future remains to be appropriate, fairly priced products and a focus on the provision of other services (ACCA, 2011).

Research findings indicate that majority of MFIs in Kenya are financially unsustainable (Githinji, 2009; Arodi, 2013; Kisengo, 2014). Arodi (2013) asserts that majority of the MFIs in Nairobi, and in Kenya generally, are below the market mean sustainability. Among the factors found to influence the sustainability of MFIs in Kenya were subsidies and grants; and donor involvement in form of loans or capacity building. Kisengo (2014) in a study on
the effects of firm characteristics on performance of microfinance sector in Nakuru maintain that during the period of study there was a moderate increase in funding from donors.

1.1.4 Microfinance Institutions in Murang’a County
Murang’a County is one of the five counties in the central region of Kenya and occupies 2,558.8 km$^2$. There are 20 MFIs including Equity Bank, Post Bank, SMEP DTM, Faulu Kenya, KWFT and Eclof; (AMFI 2013). Their activities are pegged on improvement of social and economic well-being of the population. There is a moderate rate of poverty in the county with about 36% of the population living below the poverty line, the hardest hit include women, unemployed youth, widows and orphans. Among the causes for this include lack of industries, stringent collateral requirements and high interest rates by banks.

Kimando, Kihoro and Njogu, (2012) in a study on factors influencing the sustainability of MFIs in Murang’a Municipality revealed that most of the MFIs had been in operation in Murang’a for 2-5 years and their headquarters were in Nairobi. They also did not have branches in other parts of Murang’a and mainly drew their funding from members or SACCOs. Other sources of funding were churches and other institutions, and a small percentage, (8.3%) were owned by individuals. Currently, most of the MFIs have between 801-1100 clients (38.9%). The study further revealed that the MFIs are commonly faced with challenges related to non-payment loan, poor management, over borrowing by clients and some government policies.

Mungai, Maingi and Muathe (2014) in their study on loan repayment and sustainability of government-funded micro-credit initiatives in Murang’a, revealed a high loan diversion (61%) where loans were diverted from the purposes for which they had been granted. This
was largely attributed to poor business performance, domestic problems, illiteracy and low level of education, prevailing shocks on the economy and circumstances at disposal.

1.2 Statement of the Problem
The microfinance institutions play a crucial role in providing financial services to a large group of people unable to access traditional banking services. Sustainability of MFIs is, therefore, crucial in poverty alleviation (Robinson, 2003; CGAP, 2004; Hollis & Sweetman, 2007; Iezza, 2010; Guntz, 2011; Tehulu, 2013). This is because sustainable MFIs can reach more poor people, thus ensuring that they continue to access financial services (Ek, 2011). Continuance of MFIs programmes to poor households will have a lasting impact on poverty alleviation (Tehulu, 2013). By providing financial services to the poor, the MFIs contribute to their economic empowerment. On the other hand, unsustainable MFIs will not help the poor in the future because they will be gone (Schreiner, 2000).

However, there has been growing concern over the sustainability of these institutions due to intense competition witnessed globally as the industry becomes saturated with institutions offering various financial products and services to the poor. The Consultative Group to Assist the Poor (CGAP, 2002) estimated that approximately 5% of the MFIs worldwide were financially sustainable. The IMF (2005), on the other hand, points out a different and poignant picture by placing this at only 1%, indicating that 99% of MFIs have not achieved sustainability. According to Dondo (2007) the three main challenges facing the microfinance industry in Africa, Kenya included, are expanding outreach to large numbers of people, deepening outreach to poorer clients, and reducing the cost to improve the sustainability of services.
Extant local research studies on the MFI industry in Kenya abound. Lengewa (2003) conducted a study on competitive strategies used by NGO MFIs in Nairobi. The study revealed that the MFIs employed competent staff, adopted quicker and cheaper transaction processing and offered unique and quality products and services. Ngigi and Njeru (2013) investigated the influence of competitive generic strategies on customer base in DTMs in Nairobi. The findings indicate that cost leadership and differentiation strategies influence the customer base. Wambugu and Ngugi (2012) examined the factors influencing the sustainability of MFIs in Kenya, using a case study of KWFT. The study reveals that quality of service delivered, branch network, trained staff and cost of capital influenced the sustainability of KWFT. Wangure (2012) examined the influence of product differentiation in achieving a sustained competitive advantage in DTM institutions in Kenya using a survey design. The study found that DTMs gave assorted products and focused on the low-end market to outperform their competition.

Another study by Mutai (2012) investigated competitive strategies adopted by MFIs in Kenya. The findings of the study indicated that the MFIs used cost leadership, differentiation and focus strategies together with operational excellence by providing suitable and fairly-priced products and services. Tomno (2014) studied the relationship between competitive strategies and performance of MFIs in Kenya. The findings of the study indicated that differentiation, cost leadership and focus strategies affect the performance of MFIs in Kenya. It is evident that limited attention has been placed on examining the effect of competitive strategies on sustainability of MFIs in Murang’a County, Kenya. This present study sought bridge that gap.
1.3 Objectives of the Study

1.3.1 General Objective of the Study
The general objective of this study was to determine the effect of competitive strategies on sustainability of MFIs in Murang’a County.

1.3.2 Specific Objectives of the Study
The study was guided by the following specific objectives:

(i) To examine the effect of cost leadership strategy on sustainability of MFIs in Murang’a County.

(ii) To evaluate the effect of focus strategy on sustainability of MFIs in Murang’a County.

(iii) To determine the effect of differentiation strategy on the sustainability of MFIs in Murang’a County.

(iv) To establish the effect of product development on sustainability on MFIs in Murang’a County.

1.4 Research Hypotheses
The following null hypotheses were tested in this study:

H₀₁: Cost leadership strategy has no significant effect on the sustainability of MFIs in Murang’a County.

H₀₂: Focus strategy has no significant effect on the sustainability of MFIs in Murang’a County.
H\textsubscript{03}: Differentiation strategy has no significant effect on the sustainability of MFIs in Murang’a County.

H\textsubscript{04}: Product development has no significant effect on the sustainability of MFI in Murang’a County.

1.5 Significance of the Study

This study is significant to MFI owners and managers as it will help improve their understanding of how competitive strategies can influence the sustainability of their MFIs and which of these strategies would be the best to implement for their MFIs. The study also highlights the need to adopt competitive strategies to achieve success and sustainability of MFIs hence ensuring the continued provision of financial services to the poor. To achieve sustainability there is need for the MFIs to adopt cost leadership strategy, where the MFIs offer their products at a fair price than their business rivals. The MFIs also should adopt focus strategy which was found to be the best predictor of sustainability. This will enable them to not only attract new customers, but also retain their market share. The findings also show that the MFIs have only adopted differentiation strategy to a moderate extent. There is, therefore, need for MFI owners and managers to strengthen its adoption to achieve sustainability of their programmes. This can be through both product and service differentiation which will allow them to charge a premium price.

The findings are significant to future scholars and researchers because it will help add to the body of knowledge in the field of strategic management, thus contribute as a reference for further studies. The findings of this study reveal that product development is the least competitive strategy to predict MFI sustainability. Future studies may be interested in
investigating how the MFIs have adopted product development strategy to achieve sustainability. To the donors and the government, this study is useful in understanding how the sustainability of MFIs can be achieved through the application of competitive strategies. This is because sustainability of MFIs is crucial in poverty alleviation which both parties are interested in. The findings can be used in designing capacity building programmes for MFI owners and managers to help empower them, so that they can help their institutions to achieve sustainability; thus ensuring a continuance of their financial services to the poor and those from low economic group.

1.6 Scope of the Study
This study focused on registered MFIs which had been in existence for at least five years operating in Murang’a County between 2013 and 2017. This is because during this period the microfinance sector faced intense competition after the enactment of the Microfinance Amendment Act of 2013. The target population was senior managers, because they are involved in the crafting and implementation of strategies for their organisations. This study focused on the effect of competitive strategies on sustainability of MFIs in Murang’a County. The study variables were cost leadership strategy, focus strategy, differentiation strategy and product development strategy.

1.7 Limitations of the Study
Murang’a County is vast and has a rugged terrain in some places that proved challenging. This study was limited to those MFIs that were easily accessible. Most of the MFIs operating in Murang’a County have headquarters in Nairobi; this limited the availability of sufficient data because most of the senior managers are based in the headquarters. The use
of a survey limits the generalization of the study findings because the method captures the views that exist at one point in time. The use of a questionnaire could have limited the collection of opinions and attitudes of the respondents.

1.8 Organization of the Study
The study is structured as follows: chapter one provides the background of the research, statement of the problem, research objectives, research hypotheses, significance of the study, the scope of the study and limitations that were encountered during the study. Chapter two presents the literature review on the theories underpinning the study, empirical review, competitive strategies and the sustainability of MFIs, summary of the literature review and research gaps, and a conceptual framework. Chapter three presents research methodology used in the study, which includes the research design, population, data collection instrument, pilot testing, data collection procedure, data analysis and ethical considerations. Chapter four presents data analysis, interpretation and discussion. Chapter five presents the summary, conclusion and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents a review of the literature on the study. It covers the theoretical review, an empirical review, summary of literature and research gaps and the conceptual framework of the study.

2.2 Theoretical Review
This section presents theories and models on which the study is anchored. Porter’s generic strategies model, the resource-based view model of the firm and the product development model based on Ansoff’s product/market model are presented.

2.2.1 Porter’s Generic Competitive Strategies Model
This model describes generic strategies that a firm may choose from to engage in either offensive or defensive actions against competition in any industry. These are cost leadership, differentiation and focus strategies. Porter (1985) argues that generic strategies can only lead to competitive advantage if they are sustainable. To do so the firm must possess barriers that hinder other firms from imitating the chosen strategy. In a cost leadership strategy, the firm strives to be the lowest-cost producer in the industry that serves a market dominated by price-sensitive buyers (Thompson et al., 2009). It is a strategy that focuses on efficiency and the production of standard products in large quantities which enable the firm to take advantage of the economies of scale (Tanwar, 2013). The firm also takes advantage of technological innovations and possession of a preferential access to raw materials (Porter, 1980).
For a firm employing this strategy, low cost becomes its theme whereby strategies adopted aim at reducing the cost structure to offer its products to customers at a standard quality but lower price than the competition (Hill & Jones, 2010). Some of the means to achieve this include improving process efficiencies, production of high volumes of output or maintaining low overhead costs such as distribution, R&D, advertising and controlling the need for differentiation (Porter, 1980). When a firm lowers its cost structure, it achieves higher profits than its rivals because its production costs are lowered and it is also able to charge lower prices than the competition to compensate for slightly lower quality (Porter, 1985).

A differentiation strategy also targets a broad market. A firm seeks to be different from others in the industry by providing unique products or services that have some attributes considered important by many buyers; who are willing to pay a premium price charged on them (Porter, 1985). However, for this strategy to work, the premium price must exceed the extra costs incurred to make the product unique (Thompson et al., 2009). Differentiation can be based on the design, brand image, technology, features, dealers, network or customer service (Tanwar, 2013). Chan, Glaser, Rahman and Smith (2012) argue that product differentiation in Microfinance industry can be based on differences in the type of institution (firm charters) and the lending methodology employed. Consequently, the customer has a wide range of choice; from the type of financial institution to the type of loan contract offered. This includes little or no collateral lending models, thus greatly differentiating the Microfinance products and services.

The focus strategy, unlike cost leadership and differentiation, is based on a narrow market. The firm selects a narrow segment or group of segments and concentrates on serving them to
the exclusion of others (Porter, 1980; Porter, 1985). To achieve a competitive advantage, the firm concentrates on embedding effectiveness in their processes, and not on efficiencies (Tanwar, 2013). The basis for competitive advantage may either be adopting a low-cost leadership strategy (cost focus) or offering unique products in this segment (differentiation focus). A focused low-cost strategy achieves a competitive advantage for a firm that concentrates on serving buyers in a niche market by being the low-cost producer and offering them a lower price than the competitors; the focused differentiation strategy, on the hand, attains a competitive advantage by serving the niche market with products designed to meet their unique preferences and needs (Thompson et al., 2009). For this strategy to be successful, a firm needs to be innovative in segmenting the industry (Porter, 1985).

This model is relevant to this study because MFIs need to employ these generic strategies to achieve a competitive advantage in an industry that is becoming highly competitive. The pursuit of cost leadership structure effectively enables an MFI to reduce all production costs, thus becoming the lowest cost provider, hence attracting more clients. A differentiation strategy enables an MFI to offer unique products that customers need thus customers’ loyalty that eventually drives market share. In a focus strategy, the MFI can achieve a competitive advantage by concentrating on a particular geographical area, market segment or product line.

2.2.2 Ansoff’s Market/Product Development Model
Ansoff (1957) posits that the attempts made by business owners to grow their businesses are dependent on choices they make regarding their markets or products. They can either choose to sell their existing products in new markets or expand into existing markets; or
develop new products for their existing markets or for new markets. This brings up four competitive strategies developed from this matrix that a business may choose from: market penetration, market development, product development and diversification. In market penetration, the current products are pushed into new markets; in market development, the firm targets new users or segments for its products; while in diversification a firm enters into new lines of business different from its current ones.

Product development is a growth strategy where new products or existing products are modified to appeal to existing markets. It plays a crucial role in increasing the customer outreach for any organization, consequently leading to sustainability and increased profitability (Kapoor & Sinha, 2013). Research and development forms a major component of this strategy since it contributes to the production of novel products as per customers’ needs. In pursuing this strategy, the firm may either make modifications in its current products, thus, achieving new product designs which expand the product line and portfolio; or come up with entirely new products with new attributes to increase its product line for current or new markets (Mosiria, 2012). Product development may also involve the use of new techniques in the production process (Reguia, 2014).

Product development starts with the conceptualization of an idea through to the launch of the product in the market. However, the process does not end with this step, since continuous refinement of the product recurs as per the feedback from customers and an analysis of the market (Kapoor & Sinha, 2013). There are various reasons that may drive an organization to engage in this strategy. These may be internal (organizational), external (market factors) or product (process) factors (Brand, 1995). The organization’s purpose for
pursuing this strategy is to achieve a competitive advantage, and corporate growth and survival. The organization, therefore, may achieve an increase in the market share, corporate image, public rating, distribution coverage, profitability and high levels of productivity (Mosiria, 2012).

Various factors have made MFIs to adopt the product development strategy (CGAP, 2009). One, there is growing need to seek products that respond to clients’ needs because the high levels of drop-outs are associated with costs that influence the sustainability of MFIs. Second, the intense competition in the market underlines the need for a market-driven approach to microfinance. Third, there is need to either find new clients or retain current clients whose expectations and needs may have changed. Fourth, some MFIs could develop new products due to high drop-out or exit levels of clients. Fifth, MFIs may desire to leverage on their existing infrastructure, increase efficiency and improve productivity. Brand (1998) states that in MFI new product development may include the introduction of new financial services, for example, savings and insurance; new product features, for example, loan terms, repayment schedules, and interest rates; and tangible products, such as smart cards.

This model is relevant to this study because as the MFI industry becomes mature, there is intense competition characterized with stagnant or little growth. An MFI needs to develop new products to achieve a competitive advantage by not only attracting new customers; but also maintain its current ones whose needs may have changed. Product development will ensure that the MFI is able to come up with products to satisfy the need in the market, thus leading to its sustainability.
2.2.3 Resource-Based Theory

Competitive advantage is attained when a firm implements a value-creating strategy that is not being implemented by current or potential competitors (Barney, 1991). When other firms are unable to imitate the benefits of this advantage, the firm is said to have a sustained competitive advantage (Barney, 1991). The resource-based theory, therefore, emphasizes that for a firm to compete favourably, it should start by examining how to use its internal resources to do so.

According to this theory, a firm’s sustained competitive advantage arises from its internal resources. These are essentially the strengths that can be used to formulate and implement their strategies (Barney, 1991). Thompson, Strickland and Gamble (2009) assert that a resource should possess a strength; that is, is something that a company is good at doing or an attribute that enhances its competitiveness in the marketplace. The resource can either be tangible or intangible. While tangible resources such as capital, land, geographical location, buildings and machinery are important, it is the intangible resources such as brand, reputation, human resources, trademarks and intellectual property that give a firm a sustained competitive advantage. Barney (1991) maintains that it is only those resources that are of value to the firm, cannot be imitated, or only owned by few players in the industry and cannot be substituted easily that help a firm to gain a competitive advantage. Resources that pose these characteristics are unique and, therefore, tools that enable firms to achieve profits that are above-industry means and command market leadership (Barney & Hersterly, 2010).
Thompson et al., (2009) maintain that resources that can contribute to a competitive advantage are those that rivals do not possess. The more difficult and expensive it is to imitate a firm’s resource strength; the greater is its potential for a competitive value. Resources can only be unique and imitable when they have been built over a long time and require huge capital. For a resource to be able to give a firm a competitive advantage, the rivals should not possess equivalent substitutes.

This theory underpins this study because organizations cannot exist without resources, both tangible and intangible; because it is these that give it a resource strength on which to compete. The organizations use their competencies acquired through their resources to formulate their competitive strategies.

2.3 Empirical Review
This section presents an empirical review of studies that have been conducted on the effect of the independent variables (competitive strategies) on the dependent variable (sustainability of MFIs).

2.3.1 Cost Leadership Strategy and Sustainability of Microfinance Institutions
Lengewa (2003) in a study on the competitive strategies used by NGO MFIs in Nairobi found that the MFIs use various strategies to offer their products and services. The cost leadership strategies used include keeping transaction costs lower than that of competitors, minimizing group sizes for accessing loans and making collateral requirements easier than that of competitors. Transaction costs involve easing the procedures for becoming a member, quick and simple loan application processes, quick and convenient processing of repeat customers. This study was only based on NGO MFIs and recommends a study be
undertaken to include all players in the MFI industry which has been adopted in the current study.

In a study on the competitive strategies adopted by MFIs in Kenya, Mutai (2012) found that the MFIs employ the three generic strategies: cost leadership, differentiation and focus strategies together with operational excellence, customer intimacy and product leadership to gain a competitive advantage. The study concludes that MFIs offered products to a broad customer segment, adopted cost reduction measures, leveraged IT to deliver value and maximized on economies of scale.

In a study on the relationship between competitive strategies and performance of MFIs in Kenya, Tomno (2014) found that there was a positive relationship between cost leadership strategies and the performance of MFIs. The cost leadership strategies employed by MFIs include continuously searching for cost reduction without sacrificing quality and essential features of products and services, enhancement of process efficiencies, leveraging on IT to deliver value, charging a lower fee than competitors and maximizing on economies of scale. The MFIs only moderately offer products and services to a broader customer segment.

Kimatu and Okibo (2014) found that cost leadership strategy was rarely used by industrial knitting micro enterprises in Kenya. This is because the workers were paid a standard piece rate not an hourly rate, thus maximizing production to reduce production costs was not possible. This study focused on the non-financial performance of industrial knitting micro enterprises in Kiambu County, which may not be generalized to MFIs in Murang’a County.
In their study, Minja and Mutunga (2014) found that the cost leadership strategy was employed by food and beverage firms in Kenya. The firms maximized on the use of capacity as a cost-saving measure aimed at reduction of unnecessary costs. Majority of respondents reported that taking advantage of economies of scale was an important cost driver, to reduce transaction costs, through procurement and sale of items in bulk. The most important drivers were discretionary costs like product mix, service provision and efficiency in operations, while institutional factors involved factors like the organizational structure and customer service. The geographical location of the firm was not found to be very crucial in pursuing a cost leadership strategy. The research gaps identified in this study is that it was based on generic competitive strategies employed by food and beverage firms in Kenya, which is a different industry from MFIs which offer financial services.

2.3.2 Focus Strategy and Sustainability of Microfinance Institutions

In a study on competitive strategies and performance of firms in the software industry in Kenya, Karanja (2009) found that focus differentiation was the most important competitive strategy in the industry. The firms focused on a specific product line, geographic area, big orders or specific markets. The well-established firms concentrated on achieving product superiority in terms of quality within a specific market segment or product line. The respondents indicated an expected shift in their ability to innovate, take risks new ventures and their relationships with their customers as results of their adoption of this strategy. The study was based on software industry with a focus on Nairobi, which is a different context from this study on competitive strategies and sustainability of MFIs in Murang’a County.
Tomno (2014) found that the focus strategy was moderately used by MFIs as a competitive strategy. The MFIs adopted the concentration in one market, identified a specific niche in the market such as encouraging women to open accounts and focus on products and services not offered by competitors as some of their focus strategies. However, the study further revealed that the institutions did not have custom-made products and services for corporate customers. This study used a different dependent variable (performance of MFIs) from the one to be used in the current study (sustainability of MFIs).

Kungu, Desta and Ngui (2014) in their assessment of the effectiveness of competitive strategies used by commercial banks: a case study of Equity Bank, found that the bank to improve the current performance seeks to change its target market segment and business activities; focuses on specific customers, geographical areas and services. However, the study is limited to a case study on Equity Bank and only included respondents from the Headquarters in Nairobi. The study also, had different dependent variable from the one to be used in this study.

2.3.3 Differentiation Strategy and Sustainability of Microfinance Institutions
Lengewa (2003) found that the MFIs offer high quality services and products; and provide products and services not offered by the competition, offer higher loan sizes and better terms for services to differentiate their products and services. This study, however, focused on NGO-MFIs in Nairobi. According to AMFI (2013) the MFIs that are members of the Association in Kenya fall under different categories: banks with a microfinance sector, wholesale MFIs, retail MFIs, DTMs; which are not considered in the study.
Wangure (2012) examined the achievement of a sustainable competitive advantage through product differentiation in DTMs in Kenya. The study revealed that the adoption of product differentiation strategy was effective to a very great extent. It was also established that DTMs gave assorted products and focused on the low-end market to outperform their competition. Majority of the DTMs offered loans, training and consultancy, voluntary savings, funds transfer, insurance and ATM services. The author also states that the DTMs had a product differentiation strategy for payment options, discount offers, limit allocations, interest charges, loyalty programmes, co-brands, annual fees and travel insurance; thus, creating a sense of value which contributed to improved firm performance. However, since the study focuses on DTMs only, the generalization of the findings to the whole MFI industry in Kenya may be limited, a gap that the current study addressed.

On a global perspective, Chan et al., (2012) conducted a study using panel data provided by Microfinance Information Exchange, an NGO that collects and validates data on MFIs in the developing world; on 1418 MFIs in the period 2004-2010 on product differentiation and surplus in MFI. The authors assert that differentiation enables firms to meet specific preferences, thus attracting new customers. They maintain that the major aspects that differentiate MFIs are differences in firm charters (institutional types) and the lending methodology. The study identified 4 lending methodologies: individual lending, individual and solidarity lending, solidarity lending, and village lending. The financial institutions that offered both individual and solidarity banking made up 48% of the market, while those that offered village banking were 1%. 
On institutional types, the authors identified 6 types: NGO, traditional banks, Credit unions, rural banks and other financial institutions. The study found that the most prevalent are NGOs, making up 38%, while non-banking financial institutions followed with 31%. This study does not identify competitive strategies used by the MFIs to differentiate their products and services; it is based on secondary data and adopts a longitudinal meta-analysis design neither is it country nor county specific; which have been addressed in this study that will use a cross-sectional census design that will rely on primary data and its scope will be limited to Murang’a County, Kenya.

In their study on the relationship between competitive strategies and firm performance in mobile telecommunication companies in Kenya, Arasa and Gathinji (2014) found that product differentiation strategy was the most adopted. The study concluded that organizations that used this strategy conformed to specifications that greatly influenced the reliable performance of the product, ensured quality systems for the coherence of process capabilities and provide unique and superior products to the market. The study, however, was based on the mobile telecommunications industry which deals with different services from the MFIs.

2.3.4 Product Development Strategy and Sustainability of Microfinance Institutions
Mosiria (2012) in a study on the relationship between internal growth strategies and performance of selected banks in Nairobi found that product development is highly adopted by the banks in Kenya. The banks were involved in the improvement of current products, customizing products, developing new products targeting emerging new needs and maintaining relatively long product cycles for their growth and survival. This study used
firm performance as the dependent variable with 12 indicators; including customer satisfaction, customer loyalty, customer retention among others. The study also had strategy support conditions as the mediating variable. The present study examines the effect of product development on sustainability of MFIs in Murang’a County.

Mutai (2012) in a study on competitive strategies adopted by MFIs in Kenya, found that majority of the MFIs focused on continuous improvement of their products and services. This has led to the availability of cutting-edge products and services. Innovativeness and hence new products have largely increased their ability to stay ahead of the competition. The study did not consider the influence of these competitive strategies on sustainability of MFIs. Numa (2013) conducted a study on the relationship between product diversification and business growth in the banking industry in Kenya using a case study of Co-operative Bank. The findings showed that product modification strategies such as modification/rebranding of existing products and relaunching into the markets, addition of new product features to existing products and launch of new products were employed to a great extent. Technology was also highly used in product modification. The study further found out that development of products was highly embraced in an attempt to increase growth.

Njoroge (2015) in a study on organizational resources and performance of mobile phone industry in Kenya found that human capital and technological competencies had a significant effect on the performance of mobile telephone companies in Kenya. This was attributed to the technical ability to produce new products. Innovation played a key role in the development of new ideas, products and services, and enabled complex production
processes. The findings revealed that a company’s performance improves when it constantly changes the methods employed in service delivery. This study had a different independent variable (organizational resources) and dependent variable (performance of mobile phone industry) from the current study that has competitive strategies and sustainability of MFIs as its variables.

2.4 Summary of Literature Review and Research Gaps
A review of empirical research has shown that generic competitive strategies are largely pursued by MFIs. Cost leadership, focus and differentiation strategies have been employed by various institutions to achieve a competitive advantage (Lengewa, 2003; Wangure, 2012; Mutai, 2012; Wambugu, 2013; Ngigi & Njeru, 2013; Tomno, 2014). However, attention has been given to the influence of Ansoff’s product development strategy in the Microfinance industry. The various studies have also focused on different variables, methodology and contexts. Lengewa (2003) studied competitive strategies used by NGO-MFIs in Nairobi using a survey research design; Wangure (2012) examined the influence of product differentiation in achieving a sustained competitive advantage in DTM institutions in Kenya using a survey design; Mutai (2012) investigated competitive strategies adopted by MFIs in Kenya using a cross-sectional survey; Wambugu (2013) examined factors influencing sustainability of MFIs in Kenya using a case study of KWFT; Ngigi and Njeru (2013) investigated the influence of competitive generic strategies on customer base in DTMs in Nairobi using a cross-sectional survey; while Tomno (2014) studied the relationship between competitive strategies and performance of MFIs in Kenya. From the literature reviewed, it is evident that limited attention has been placed on examining the relationship
between competitive strategies and sustainability of MFIs in Murang’a County, Kenya, hence the need for this study to help fill the gap.

2.5 Conceptual Framework
The dependent variable in this study is sustainability of MFIs, while the independent variable is competitive strategies indicated by cost leadership strategy, focus strategy, differentiation strategy and product development strategy. This study has adopted outreach (customer base), and the lending model as the indicators of sustainability of MFIs. The relationship between these variables is shown in Figure 2.1.
Independent variables | Dependent variable

**Competitive Strategies**

- **Cost leadership strategy**
  - Fairly-priced products/services
  - Flexible loan repayment
  - Economies of scale

- **Focus strategy**
  - Market/product
  - Geographical area
  - Social class

- **Differentiation strategy**
  - Unique products/services
  - Customer service
  - Corporate brand

- **Product development strategy**
  - New products/services
  - Modification of products/services
  - Innovative products

**Sustainability of MFIs**
- Loan repayment rates
- Outreach

**Figure 2.1: Conceptual Framework**
Source: Author (2018)
Cost leadership strategy involves the choice by an MFI to be the lowest cost producer in the industry. It is mainly characterized by the choice to be involved in man’s production of standard products which enables the firm to take advantage of economies of scale and thus charge lower prices or even same prices as their rivals and still make profits.

A focus strategy enables an MFI to select a niche in which it feels it can adequately meet the needs and expectations of the clientele. This may be based on a specific market, geographical area, social class or other parameters. This creates a competitive advantage for the MFI because it concentrates its efforts on a narrower segment of the market.

In a differentiation strategy, the MFI chooses to offer unique products and services in the industry that have specific attributes valued by customers who have such preferences. This may take various forms including exceptional customer service and the corporate brand and image. As a competitive strategy, it leads to customer loyalty and attracts new customers thus increasing the firm’s market share.

New product development is a strategy whose focus is on innovative products that mainly result from technological advances. By leveraging on technology, the firm can come up with newer products and services or modify its current products and services thus achieving a competitive advantage over its rivals who may not be able to imitate or possess the technological know-how.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This study investigated competitive strategies and sustainability of MFIs in Murang’a County. This chapter describes the methodology and procedures used to carry out the research. The chapter covers the following sections: research design, the target population, data collection instrument, validity and reliability of research instrument, pilot testing, data procedure, data analysis and presentation, and ethical considerations.

3.2 Research Design
The study adopted a descriptive survey design. According to Kothari (2004) descriptive studies describe the characteristics of an individual or group. This design was appropriate for the study since no experiments were conducted on the variables. A survey design provides a quantitative or numeric description of trends, attitudes or opinions of a population by studying a sample of that population (Creswell, 2009). This design was used in this study because it enabled the researcher to collect data from the target population in an economic way using questionnaires. Since surveys gather data at a certain point in time, they can be used to determine the relationships existing between two or more events (Cohen, Manion & Morrison, 2011). This design was appropriate for the study because it enabled the determination of the relationship between competitive strategies (independent variable) and sustainability of MFIs (dependent variable).

3.3 The Target Population
Mugenda and Mugenda (2003) describe population as an entire group of individuals, events, or objects having a common observable characteristic. The target population of the study
was senior managers who are the CEOs, branch managers, operations managers and senior credit officers in each of 20 MFIs, making a total of 80 respondents. These senior managers were chosen because they are directly involved in strategic management activities of their institutions, therefore, they provided valuable and relevant data on the link between competitive strategies and the sustainability of MFIs.

3.4 Sample Size and Sampling Technique
The study involved the whole target population to increase the degree of generalization of the results. Secondly, the target population was not large and, therefore, manageable. Kothari (2004) maintains that there is no need for a sample survey when the population is not large. A census survey was, therefore, used where the entire population was included in the study.

3.5 Data Collection Instrument
The data collection instrument was a self-administered questionnaire and was used to collect the primary data. The questionnaire was semi-structured with questions developed in line with the objectives of the study. Mugenda and Mugenda (2003) assert that open-ended questions give the respondent complete freedom of response while close-ended types will facilitate consistency of certain data across informants. The self-administered questionnaires were chosen because they are generally reliable, encourage greater honesty because they are anonymous, and are also economical in terms of time and money (Cohen et al., 2011).
3.6 Validity and Reliability of Research Instrument

3.6.1 Pilot Testing

Although a pilot study does not guarantee the success in the main study, it increases the probability of success, because it helps in establishing whether the proposed methods or instruments are appropriate (Kavale, Mugambi & Namusonge, 2014). The pilot test was administered to 3 senior managers working in MFIs that did not participate in the study, after which their feedback was used to correct the question format and scales used in the field (Creswell, 2009). The Cronbach’s Alpha reliability coefficient of 0.7 for the pilot test showed that the questionnaire met the requirements for reliability.

3.6.2 Validity of Research Instrument

Validity refers to the degree to which results obtained from the analysis of the data actually represents the phenomenon under study (Mugenda & Mugenda, 2003). Face validity indicates that the items that are intended to measure a concept do on the face of it, look like they measure the concept (Sekaran, 2003). Construct validity refers to the measure of the degree to which data obtained from an instrument meaningfully and accurately reflects or represents a theoretical concept (Mugenda & Mugenda, 2003). Construct validity was established through empirical and theoretical review of literature and by consulting the supervisor and another lecturer, who are experts in Strategic Management at the University. Their input was incorporated in developing the questionnaire. Content validity is a measure of the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept (Mugenda & Mugenda, 2003). The content validity was established through a pilot test before the instrument was administered.
in the field. The pilot test helped in identifying questions that were ambiguous or difficult to understand; and to improve the scales used (Creswell, 2009).

3.6.3 Reliability of Research Instrument
Mugenda and Mugenda (2003) describe reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The internal reliability of the instrument was tested using Cronbach’s Alpha reliability coefficient. This study considered a value equal to or greater than 0.7 to be an indication of internal reliability. This is because Cronbach’s alpha value equal to or greater than 0.7 is regarded as an indication of reliability (Copper & Schindler, 2006). Table 3.1 below shows a summary of the results of the reliability of all the items in the research instrument.

Table 3.1: Reliability Test

Source: Pilot Data (2017)

<table>
<thead>
<tr>
<th>Reliability Test Variables</th>
<th>No of Items</th>
<th>Cronbach’s Alpha</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Leadership Strategy</td>
<td>7</td>
<td>0.745</td>
<td>Reliable</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>5</td>
<td>0.694</td>
<td>Reliable</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>7</td>
<td>0.787</td>
<td>Reliable</td>
</tr>
<tr>
<td>Product development Strategy</td>
<td>4</td>
<td>0.678</td>
<td>Reliable</td>
</tr>
<tr>
<td>Indicators of sustainability</td>
<td>5</td>
<td>0.760</td>
<td>Reliable</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>0.733</strong></td>
<td><strong>Reliable</strong></td>
</tr>
</tbody>
</table>

Cost leadership strategy had a reliability of (0.745), focus strategy (0.694), differentiation strategy (0.787), product development strategy (0.678) and indicators of sustainability had (0.760). In conclusion, all the variables attained the acceptable and recommended level of alpha 0.7 (Cooper & Schindler, 2006). The overall research instrument was reliable with Cronbach’s alpha value of 0.733
3.7 Data Collection Procedure
The study sought to collect primary data that is quantitative and descriptive in nature from the respondents using a self-developed questionnaire. Since the respondents are in senior management, appointments were made to meet them at their places of work. The administration of the questionnaire was then done by the researcher meeting the respondents in their places of work. Trained research assistants also assisted in taking the questionnaire to other areas where the researcher was not able to reach. The questionnaires were self-administered and the drop-and-pick method was used to give respondents ample time to fill them. The questionnaires were then collected after contacting the respondents to find out whether the questionnaires had been filled.

3.8 Data Analysis and Presentation
Before analyzing, the questionnaires were checked for completeness. Data cleaning was done before analysis to correct any errors that may have occurred during data collection. The entries were checked for consistency, after which coding was done to identify the themes relevant to the objectives of the study. The data analysis was done using descriptive and inferential analysis. Descriptive analysis involved the determination of percentages, measures of central tendencies and measures of dispersion. Inferential statistics such as Pearson’s Product-Moment correlation were used to examine the relationship between the independent variables and dependent variable; and multiple regression analysis was used to examine the effect of competitive strategies on sustainability of MFIs. The regression model that was used in the study was:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]
Where:

\[ Y = \text{Sustainability of MFIs} \]

\[ \beta_0 \text{ is the constant} \]

\[ \beta_1...\beta_4 \text{ are the coefficients of the independent variables} \]

\[ X_1 = \text{Cost leadership strategy} \]

\[ X_2 = \text{Focus strategy} \]

\[ X_3 = \text{Differentiation strategy} \]

\[ X_4 = \text{Product development strategy} \]

\[ \varepsilon \text{ is the error term} \]

To test for the relationship between the independent and dependent variable, Field (2009) recommends the following diagnostic tests: normality, linearity, and multicollinearity which were conducted in the study.

The Pearson’s product moment correlation (r) was used to measure the linear association between the variables; the correlation coefficient of 0.7 and above indicated a high positive correlation between the variables (Collis & Hussey, 2009). Table 3.2 shows the interpretation of the strength of the Pearson’s correlation coefficient according to Dancey and Reidy (2004) that was used.
Table 3.2: Pearson’s Correlation Coefficient Categorization

<table>
<thead>
<tr>
<th>Value of the coefficient</th>
<th>Strength of the coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Perfect</td>
</tr>
<tr>
<td>0.7-0.9</td>
<td>Strong</td>
</tr>
<tr>
<td>0.4-0.6</td>
<td>Moderate</td>
</tr>
<tr>
<td>0.1-0.3</td>
<td>Weak</td>
</tr>
<tr>
<td>0</td>
<td>Zero</td>
</tr>
</tbody>
</table>

Source: Dancey & Reidy (2004)

Hypotheses were tested to determine whether influence by the independent variable would be significant or not. The coefficient of determination ($r^2$) was used to indicate the percentage of variability in the dependent variable that was accounted for by the independent variables under study. A correlation analysis was carried out at the 0.05 level of significance and the p-value was compared to this to test the null hypotheses. If the Probability statistic (p-value) would be equal to or less than 0.05, the null hypotheses were to be rejected (Collis & Hussey, 2009). The findings of the study were summarized in form of tables, frequency distribution, percentages and diagrams such as pie charts.

3.9 Ethical Consideration
Before going to the field, the researcher sought authorization from Kenyatta University through the Graduate School (Appendix I). The introductory letter from the university was used to seek the research permit (Appendix II) from the National Council for Science, Technology and Innovation (NACOSTI) before going to the field. The researcher ensured that the respondents were not at risk of either physical or psychological harm. Informed
consent was sought from participants. The respondents were assured of confidentiality and that the findings would only be used for the purpose of the study. The anonymity and privacy of the respondents were assured since no personal information was sought from the respondents. The researcher ensured that the respondents participated willingly, without being forced or any kind of inducement offered.
CHAPTER FOUR  
DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction
This study investigated the effect of competitive strategies on sustainability of MFIs in Murang’a County. This chapter presents the data analysis, interpretation and discussions of the research findings. The results are presented in frequency tables and charts and an interpretation is given.

4.2 Response Rate in this Study
The total number of questionnaires administered was 80. However, 41 questionnaires were returned. This constitutes 51% response rate. According to Mugenda and Mugenda (2003) and Cooper and Schindler (2003) a respondent rate above 50% is adequate for making valid conclusions for the entire population. The 51% response rate was, therefore, considered adequate for the study.

4.3 MFI and Respondents’ Background Information
4.3.1 Respondents’ Gender
The study sought to find out the respondents’ gender. Figure 4.1 gives a summary of the findings on the gender of the respondents.
The study showed that 53.7% (N=22) of the respondents were females while 46.3% (N=19) of the respondents were males. The results show a gender balance leaning implying that MFIs are equal opportunity employers in line with the Constitution of Kenya which advocates for non-discriminatory practices in the job market. These results support earlier findings by Dinga (2012) which showed that the female respondents were 55% while the male respondents were 45%. These results, however, contradict the findings by Kinyua (2010) in a study on the competitive strategies adopted by MFIs in Nairobi, which showed that the majority of the respondents (58.3%) were males while the females were 41.7%.

4.3.2 Respondents’ Demographics
The study sought to find out the respondents’ age, educational background and work experience. Table 4.1 gives a summary of the findings.
Table 4.1: Respondents’ Demographics

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-39 years</td>
<td>12</td>
<td>29.3</td>
</tr>
<tr>
<td>40-49 years</td>
<td>17</td>
<td>41.5</td>
</tr>
<tr>
<td>50-59 years</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td>Above 60 years</td>
<td>5</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school certificate</td>
<td>5</td>
<td>12.2</td>
</tr>
<tr>
<td>Diploma</td>
<td>30</td>
<td>73.2</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents’ Work Experience</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 years</td>
<td>4</td>
<td>9.8</td>
</tr>
<tr>
<td>6-10 years</td>
<td>10</td>
<td>24.3</td>
</tr>
<tr>
<td>11-15 years</td>
<td>13</td>
<td>31.7</td>
</tr>
<tr>
<td>16-20 years</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2018)

The study showed that 29.3% (N=12) of the respondents were aged between 30 and 39 years, 41.5 % (N=17) of the respondents were aged between 40 and 49 years, 17.1 % (N=7) of the respondents were aged between 50 and 59 years and 12.2 % (N=5) of the respondents were aged above 60 years. The information implies that majority of the employees in senior management positions in MFIs in Murang’a County are between 40-49 years. This information contradicts the findings by Wambugu and Ngugi (2012) on the factors
influencing sustainability of MFIs in Kenya which indicated that the majority of the respondents (58.5%) were between 30-40 years; and Kinyua (2010) on competitive strategies adopted by MFIs in Nairobi who found out that the majority of the respondents (57.3%) were between 25-45 years. This contradiction can be explained by the fact that the current study involved those in senior management positions, unlike the previous studies.

The study sought to find out the respondents’ educational attainment. It was revealed that 12.2% (N=5) of the respondents had high school certificates, 73.2% (N=30) of the respondents were diploma holders and 14.6% (N=6) of the respondents had a bachelor’s degree. This implies that a majority of MFIs (73.2%) employ diploma holders, who may be offered lower salaries than bachelor’s degree holders. However, this contradicts the findings by Wambugu and Ngugi (2012) who found that a majority of the employees (60%) working at KWFT had a bachelor’s degree. Kaiganaine (2015) also found out that the majority of the respondents (42.2%) had a bachelor’s degree.

The study sought to establish how many years the respondents had worked at their MFIs. The study showed that 9.8% (N=4) of the respondents had experience of 1 to 5 years at the MFI, 41.5% (N=17) of the respondents had experience of 6 to 10 years at the MFI, 31.7% (N=13) of the respondents had experience of 11 to 15 years at the MFI, and 17.1% (N=7) of the respondents had experience of 16 to 20 years at the MFI. These results reveal that most of the respondents had worked in their institutions for over 5 years. This period is long enough for them to have understood the competitive strategies used in their institutions and how they influenced their sustainability. These findings concur with those of Wambugu and
Ngugi (2012) which indicated that over 60% of the respondents had worked in their MFIs for a period of 5-10 years.

### 4.3.3 Respondents’ Job Position

The study sought to determine what responsibility the respondents held in their MFIs. The study showed that 31.7% (N=13) of the respondents were branch managers, 22% (N=9) of the respondents were credit officers, 19.5% (N=8) of the respondents were operation managers, 17.1% (N=7) of the respondents were field officers, 2.4% (N=1) of the respondents were accountants, 2.4% (N=1) of the respondents were accounts officers, 2.4% (N=1) of the respondents were credit managers and 2.4% (N=1) of the respondents were relationship managers. Table 4.2 gives a summary of the findings on the job positions held by the respondents.

**Table 4.2: Job Positions held by the Respondents**

<table>
<thead>
<tr>
<th>JOB POSITION</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Accounts Officer</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Branch Manager</td>
<td>13</td>
<td>31.7</td>
</tr>
<tr>
<td>Credit Manager</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Credit Officer</td>
<td>9</td>
<td>22.0</td>
</tr>
<tr>
<td>Field Officer</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td>Operations Manager</td>
<td>8</td>
<td>19.5</td>
</tr>
<tr>
<td>Relationship Manager</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Author (2018)*
This implies that the respondents were competent and reliable people who could provide accurate information on the relationship between competitive strategies and sustainability of MFIs since they were in senior management positions and were involved in strategy implementation.

4.3.4 The Current Number of MFI Branches in Murang’a County
The study sought to find out the number of branches that the MFIs have in Murang’a County. Figure 4.2 gives a presentation of these findings.

![Bar Chart](image)

**Figure 4.2: Current Number of MFI Branches**

**Source: Author (2018)**

The study showed that 41.5 % (N=17) of the respondents indicated that their MFIs have 1 to 5 branches in Murang’a county, 31.7 % (N=13) of the respondents indicated that their MFI have 6 to 10 branches in Murang’a county, 22 % (N=9) of the respondents indicated that their MFI have 11 to 15 branches in Murang’a county and 4.9 % (N=2) of the respondents
indicated that their MFI have over 15 branches in Murang’a county. Figure 4.2 gives a summary of the findings on the number of branches the MFIs have in Murang’a County. The implication of this information is that a majority of the MFIs (41.5%) have between 1 to 5 branches in the county. This concurs with the findings by Muriithi (2017) that revealed that most of the MFIs did not have branches in other parts of Murang’a County.

4.3.5 Number of Years MFIs have been in Operation in Murang’a County

The study sought to find out the period of time the MFIs had been operating in Murang’a County. Figure 4.3 gives a presentation of these findings.

![Figure 4.3: Number of Years the MFIs have been in Operation](image)

Source: Author (2018)

The study showed that 36.6 % (N=15) of the respondents indicated that their MFIs have been operating in Murang’a county for 6 to 10 years, 31.7 % (N=13) of the respondents
indicated that their MFIs have been operating in Murang’a county for 11 to 15 years, 26.8 % (N=11) of the respondents indicated that their MFI has been operating in Murang’a county for 0 to 5 years and 4.9 % (N=2) of the respondents indicated that their MFIs have been operating in Murang’a county for over 15 years.

The findings show that majority of the MFIs have been operating in Murang’a for between 6-10 years ((36.6%), followed by 11-15 years (31.7%). These findings concur with the findings by Mutai (2012) which revealed that a majority of MFIs had been in operation for a period of 1-5 years and more than 10 years (43.3%). However, Kimando et. al. (2012) and Muriithi (2017) found out that majority of the MFIs (36.6%) operating in Murang’s town had been in existence for 0-5 years. The implication of this information is that although the MFIs have existed for varying lengths of time, a majority have existed for a period long enough to understand how competitive strategies influence sustainability of MFIs.

4.3.6 Total Number of Current Clients in the MFIs Per Branch
The study sought to find out the numbers of the current clients that the MFIs had per branch.

Table 4.3 below gives a summary of the findings.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1000</td>
<td>2.4</td>
</tr>
<tr>
<td>1001-2000</td>
<td>24.4</td>
</tr>
<tr>
<td>2001-3000</td>
<td>34.1</td>
</tr>
<tr>
<td>3001-4000</td>
<td>26.8</td>
</tr>
<tr>
<td>Over 4000</td>
<td>12.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2018)
The study showed that 2.4% (N=1) of the respondents indicated that their MFIs have 0 to 1000 clients up-to-date, 24.4% (N=10) of the respondents indicated that their MFIs have 1001 to 2000 clients, 34.1% (N=14) of the respondents indicated that their MFIs have 2001 to 3000 clients up-to-date, 26.8% (N=11) of the respondents indicated that their MFIs have 3001 to 4000 clients up-to-date, and 12.2% (N=5) of the respondents indicated that their MFIs have over 4000 clients up-to-date and up-to-date.

The information implies that a majority of the MFIs have between 2001-3000 clients per branch currently. The MFIs, therefore, must have used competitive strategies to beat their business rivals in attracting and retaining clients in Murang’a County. This contradicts the findings by Muriithi (2017) which revealed that 38.9% of the MFIs operating in Murang’a town had between 801-1100 clients.

4.3.7 MFIs Institutional Type
The study sought to find out the types of institutions the MFIs were. The study showed that 53.7% (N=22) of the respondents indicated that their MFIs are microfinance banks, 29.3% (N=12) of the respondents indicated that their MFIs are credit-only MFIs, 7.3% (N=3) of the respondents indicated that their MFIs are DTM. This implies that most of the MFIs in Murang’a County are microfinance banks. However, this contradicts the findings by Tomno (2014) that showed that 60% of the institutions were retail MFIs. Figure 4.4 below gives a presentation of these findings.
4.3.8 Lending Methods used by MFIs in Murang’a County
The study sought to find out the various lending methods used by the MFIs. Table 4.4 below presents the findings.

Table 4.4: Lending Methods Used by MFIs

<table>
<thead>
<tr>
<th>Lending method</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual lending</td>
<td>7</td>
<td>17.1</td>
</tr>
<tr>
<td>Solidarity lending</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Village Banking</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Both individual and solidarity lending</td>
<td>6</td>
<td>14.6</td>
</tr>
<tr>
<td>Both individual and Village lending</td>
<td>1</td>
<td>2.4</td>
</tr>
<tr>
<td>Combined individual, solidarity and village banking</td>
<td>31</td>
<td>75.6</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2018)
On the lending method used by the MFI, only 17.1 % (N=7) of the total respondents indicated that their MFI offers individual lending, 14.6 % (N=6) of the respondents indicated that their MFI offers both individual lending and solidarity group, 2.4 % (N=1) of the respondents indicated that their MFI offers both individual lending and village banking, none of the MFI offers solidarity lending or village banking only.

This information reveals that majority of the MFIs used a combination of various lending methods. Only a small number of the MFIs (17.1%) used individual lending. This contradicts the findings by Muriithi (2017) that a majority of the MFIs targeted individual clients. The results also revealed that none of the MFIs in the study used solidarity lending (0%). However, Kinyua (2010) found out that all the MFIs (100%) used solidarity lending.

**4.3.9 Products Offered By MFIs to Consumers**

The study sought to find out the various financial products offered by the MFIs. Table 4.5 below gives a summary of the findings.

**Table 4.5: Products offered by MFIs**

<table>
<thead>
<tr>
<th>Product name</th>
<th>Frequency</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Loan</td>
<td>41</td>
<td>100</td>
</tr>
<tr>
<td>Personal Consumer loans</td>
<td>39</td>
<td>95.1</td>
</tr>
<tr>
<td>Agricultural loan</td>
<td>39</td>
<td>95.1</td>
</tr>
<tr>
<td>Savings</td>
<td>39</td>
<td>95.1</td>
</tr>
<tr>
<td>Insurance</td>
<td>26</td>
<td>63.4</td>
</tr>
<tr>
<td>Money Transfer</td>
<td>25</td>
<td>61</td>
</tr>
<tr>
<td>Asset Financing</td>
<td>35</td>
<td>85.4</td>
</tr>
<tr>
<td>Pension services</td>
<td>7</td>
<td>17.1</td>
</tr>
</tbody>
</table>

*Source: Author (2018)*
On products that the MFIs offer to consumers, the study showed that all the MFI 100 % (N=41) offer business loan, 95.1 % (N=39) of all the MFIs offer Personal Consumer loans, Agricultural loans and Savings services, 85.4 % (N=35) of all the MFIs offer Asset Financing services, 63.4 % (N=26) of all the MFIs offer Insurance services, 61 % (N=25) of all the MFIs offer Money Transfer services and 17.1 % (N=7) of all the MFIs offer Pension services.

This information implies that all of the MFIs (100%) provide business loans. This concurs with a study conducted by Kinyua (2010). Personal consumer loans, agricultural loans and saving services (95.1%) are the second most provided financial products by the MFIs.

4.4 Descriptive Analysis
4.4.1 Cost Leadership Strategy
The study sought to find out the influence of Cost Leadership Strategies on sustainability of MFIs in Murang’a County. Table 4.6 gives a summary of the findings.
Table 4.6: Cost Leadership Strategy

<table>
<thead>
<tr>
<th>Cost leadership</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products/services are more fairly priced than our competitors</td>
<td>41</td>
<td>3.46</td>
<td>.977</td>
</tr>
<tr>
<td>MFI has flexible loan repayment schedule</td>
<td>41</td>
<td>3.71</td>
<td>.955</td>
</tr>
<tr>
<td>The MFI lowers the transaction costs</td>
<td>41</td>
<td>3.61</td>
<td>.945</td>
</tr>
<tr>
<td>Use technology like mobile banking</td>
<td>41</td>
<td>3.83</td>
<td>.919</td>
</tr>
<tr>
<td>Reduced overhead costs in advertising and R&amp;D to lower production cost</td>
<td>41</td>
<td>3.27</td>
<td>1.096</td>
</tr>
<tr>
<td>Offers grace period before loan repayment</td>
<td>41</td>
<td>3.59</td>
<td>1.024</td>
</tr>
<tr>
<td>Offers products/services to broad customer segment</td>
<td>41</td>
<td>4.00</td>
<td>.894</td>
</tr>
</tbody>
</table>

Mean: 3.64 .973

Source: Author (2018)

The average response was 3.64 which is approximately a mean of 4 out of 5. This indicates that cost leadership strategy to a great extent influences the sustainability of MFIs. On whether the MFIs offered products or services to broad customer segment, the respondents had a mean of 4.00 and a standard deviation of 0.894. On whether the MFIs used technology like mobile banking, the respondents had a mean of 3.83 and a standard deviation of 0.919. On whether the MFIs had a flexible loan repayment schedule, the respondents had a mean of 3.71 and a standard deviation of 0.955.

On whether the MFIs lower their transaction costs, the respondents had a mean of 3.61 and a standard deviation of 0.945. On whether the MFIs offered a grace period before loan repayment, the respondents had a mean of 3.59 and a standard deviation of 1.024. On whether the MFIs offered their goods and services at a fairer price than their competitors,
the respondents had a mean of 3.46 and a standard deviation of 0.977. On whether the MFIs reduced overhead costs in advertising and R & D to lower production costs, the respondents had a mean of 3.27 and a standard deviation of 1.096.

A high mean indicates convergence of agreement by respondents on the cost leadership strategies adopted by the MFIs while a moderate standard deviation shows a moderate variation in their opinion. A mean score of 3.64 and a standard deviation of 0.973 shows that the MFIs adopted cost leadership strategies to a great extent in order to achieve sustainability in Murang’a County. This concurs with the findings by Kinyuira (2014) that SACCOs in Murang’a County priced their products lower than the competitors to outperform them. The findings are also in agreement with Tomno (2014) who concluded that cost leadership strategies to a great extent influenced the performance of MFIs in Kenya. The findings also support the results by Ombati and Muturi (2017) that cost leadership strategy had a significant positive impact on the performance of MFIs in Kisii County, and Kinyua (2010) that majority of the MFIs in Nairobi used the overall cost leadership strategy by offering lower prices for their products than competitors to a very great extent. However, Kaiganaine (2015) findings contradict this position. The author found out that DTM institutions did not adopt cost leadership strategies to gain competitive advantage.

4.4.2 Focus Strategy
The study sought to find out the influence of Focus strategy on the sustainability of MFIs in Murang’a County. Table 4.7 gives a summary of the findings.
Table 4.7: Focus Strategy

<table>
<thead>
<tr>
<th>Focus Strategy</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identified specific markets for our products/services</td>
<td>41</td>
<td>3.80</td>
<td>.901</td>
</tr>
<tr>
<td>Only concentrates on specific products in the market</td>
<td>41</td>
<td>3.07</td>
<td>1.104</td>
</tr>
<tr>
<td>Found in specific geographical area in Murang’a county</td>
<td>41</td>
<td>3.00</td>
<td>1.162</td>
</tr>
<tr>
<td>Most customers are from the low economic group</td>
<td>41</td>
<td>3.63</td>
<td>1.043</td>
</tr>
<tr>
<td>MFI customers are largely small and medium enterprises</td>
<td>41</td>
<td>3.80</td>
<td>.980</td>
</tr>
</tbody>
</table>

Mean 3.46 1.038

Source: Author (2018)

The average response was 3.46 which is approximately a mean of 4 out of 5. This indicates that focus strategy to a great extent influences the sustainability of MFIs. On whether the MFIs identified specific markets for their products or services, the respondents had a mean score of 3.8 and a standard deviation of 0.98. On whether the MFIs’ most customers are from a low economic group, the respondents had a mean score of 3.63 and a standard deviation of 1.043. On whether the MFIs only concentrate on specific products in the market, the respondents had a mean score of 3.07 and a standard deviation of 1.104. On whether the MFIs are found in specific geographical areas in Murang’a County, the respondents had a mean score of 3.0 and a standard deviation of 1.162.

A high mean indicates convergence of agreement by respondents on the focus strategies adopted by MFIs while the high standard deviation shows high variation in their opinion. A mean score of 3.46 and standard deviation of 1.038 show that MFIs adopted Focus strategies
to a great extent in order to achieve sustainability in Murang’

ta County. This concurs with the findings of a study conducted by Kaiganaine (2015) that focus strategies were the second most used strategy by DTM institutions to achieve a sustainable competitive advantage. The findings also support Kinyuira (2014) that the SACCOs only serviced a specific customer segment, specific geographical market; and offered a narrow, limited range of services/products. However, the findings contradict the results by Tomno (2014) that focus strategies only influenced the performance of MFIs in Kenya to a moderate extent. The findings also contradict Kungu et al. (2014) who found that focus strategy was the least adopted by Equity Bank in order to gain a competitive advantage.

4.4.3 Differentiation Strategy
The study sought to find out the influence of differentiation strategy on the sustainability of MFIs in Murang’a County. The average response was 3.74 which is approximately a mean of 4 out of 5. This indicates that differentiation strategies to a great extent influence the sustainability of MFIs. On whether the MFIs offered their customers an exceptional premier customer service; the respondents had a mean score of 4.0 and a standard deviation of 0.806. On whether the MFIs delivery services were efficient, responsive and reliable, the respondents had a mean score of 3.768 and a standard deviation of 0.988. On whether the MFIs offered unique products or services than those offered by their competitors, the respondents had a mean score of 3.76 and a standard deviation of 0.916.

On whether their corporate image is recognized as a symbol of reliability in the industry, the respondents had a mean score of 3.76 and a standard deviation of 0.943. On whether the location of the branches, opening hours, physical layout and design differentiates the MFI,
the respondents had a mean score of 3.73 and a standard deviation of 1.184. On whether the use of ICT such as ATM and card-based savings enabled them to attract and retain customers, the respondents had a mean score of 3.59 and a standard deviation of 0.921. On whether the MFIs relied on advertising in order to differentiate their products and build a corporate brand, the respondents had a mean score of 3.59 and a standard deviation of 0.865.

Table 4.8 below presents a summary of the findings.

**Table 4.8: Differentiation Strategy**

<table>
<thead>
<tr>
<th>Differentiation Strategy</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offers unique products than those offered by our competitors</td>
<td>41</td>
<td>3.76</td>
<td>.916</td>
</tr>
<tr>
<td>Delivery systems are efficient, responsive and reliable</td>
<td>41</td>
<td>3.78</td>
<td>.988</td>
</tr>
<tr>
<td>Offers our customers an exceptional premier customer service</td>
<td>41</td>
<td>4.00</td>
<td>.806</td>
</tr>
<tr>
<td>The location of our branches, opening hours, physical layout and design differentiate us from others in the market</td>
<td>41</td>
<td>3.73</td>
<td>1.184</td>
</tr>
<tr>
<td>Our use of ICT such as ATM and card-based savings enable us to attract and retain our customers</td>
<td>41</td>
<td>3.59</td>
<td>.921</td>
</tr>
<tr>
<td>Our corporate image is recognized as a symbol of reliability in the industry</td>
<td>41</td>
<td>3.76</td>
<td>.943</td>
</tr>
<tr>
<td>We rely on advertising to differentiate our products and build the corporate brand</td>
<td>41</td>
<td>3.59</td>
<td>.865</td>
</tr>
</tbody>
</table>

Mean  

| Mean             | 3.74 | .946 |

**Source:** Author (2018)

A high mean indicates convergence of agreement by respondents on differentiation strategies adopted by MFIs while a moderate standard deviation shows little variation in their opinion. The mean score of 3.74 and standard deviation of 0.946 show that MFIs adopted Differentiation strategies to a great extent so as to achieve sustainability in
product differentiation strategy was the most adopted competitive strategy by telecommunication companies. The study also revealed that product differentiation strategy to a great extent affected the performance of these companies. The study also concurs with the findings of a study conducted by Wangure (2012) on achieving sustainable competitive advantage through product differentiation in DTM s in Kenya. The findings revealed that 50% of the respondents indicated that DTM s achieved competitive advantage to a very great extent. The findings also support Tomno (2014) that differentiation strategies to a great extent influenced the performance of MFIs in Kenya. On the other hand, the findings contradict the results by Kinyua (2010 that MFIs in Nairobi used product differentiation strategy to a low extent as a competitive strategy.

4.4.4 Product Development Strategy
The study sought to find out the influence of product development strategy on the sustainability of MFIs in Murang’ a County. The average response was 3.89 which is approximately a mean of 4 out of 5. This indicates that product development strategy to a great extent influences the sustainability of MFIs. On whether the MFIs have developed new products/services for their customers, the respondents had a mean score of 4.0 and a standard deviation of 0.806. On whether the use of ICT has enabled them to produce innovative products not in the market, the respondents had a mean score of 3.98 and a standard deviation of 0.758. On whether the products/services are constantly modified to suit their customers’ needs, the respondents had a mean score of 3.95 and a standard deviation of 0.921. On whether the MFIs have a strong R&D department charged with
designing innovative products for their customers, the respondents had a mean score of 3.66 and a standard deviation of 1.132. Table 4.9 presents a summary of the findings.

**Table 4.9: Product Development Strategy**

<table>
<thead>
<tr>
<th>Product Development Strategy</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have developed new products/services for our customers</td>
<td>41</td>
<td>4.00</td>
<td>.806</td>
</tr>
<tr>
<td>Our products/services are constantly modified to suit our customers' needs</td>
<td>41</td>
<td>3.95</td>
<td>.921</td>
</tr>
<tr>
<td>The use of ICT has enabled us to produce innovative products not in the market</td>
<td>41</td>
<td>3.98</td>
<td>.758</td>
</tr>
<tr>
<td>We have a strong R&amp;D department charged with designing innovative products for our customers</td>
<td>41</td>
<td>3.66</td>
<td>1.132</td>
</tr>
</tbody>
</table>

**Mean** 3.89  .649

*Source: Author (2018)*

A high mean indicates convergence of agreement by respondents on the product development strategies adopted by MFIs while a low standard deviation shows little variation in their opinion. A mean score of 3.89 and standard deviation of 0.649 show that MFIs adopted Product development strategies to a great extent so as to achieve sustainability in Murang’a County. These findings support Mutai (2012) that MFIs adopted product leadership strategy to a great extent as a competitive advantage. The findings also support Namusonge, Mukulu and Mokaya (2017) who conducted a study on the relationship between strategic product development practices and financial performance of telecommunication firms in Kenya. The study found that there was a positive and significant correlation between strategic product development practices and financial performance of
these firms. In another study, Njoroge (2015) revealed that technological competences affected the performance of mobile phone companies in Kenya; mainly attributed to the technical ability to produce new products. However, the study contradicts the findings by Kinyuira (2014) that the SACCOs in Murang’a County did not invest in innovation and creativity; neither did they develop new products/services frequently.

4.5 Indicators of Sustainability
The study sought to find out the indicators of sustainability of MFIs in Murang’a County. The variables used to measure sustainability were outreach, loan repayment and lending methodology. Under outreach, the study examined both increase in the customer base and the number of women clients compared to men. Table 4.10 below presents a summary of the findings.

Table 4. 10: Indicators of Sustainability

<table>
<thead>
<tr>
<th>Indicators of sustainability</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our customer base has consistently increased over the past one year</td>
<td>41</td>
<td>3.76</td>
<td>.860</td>
</tr>
<tr>
<td>We serve more women as compared to men</td>
<td>41</td>
<td>3.24</td>
<td>1.157</td>
</tr>
<tr>
<td>The MFI has low loan repayment default rate</td>
<td>41</td>
<td>3.44</td>
<td>1.001</td>
</tr>
<tr>
<td>The average loan outstanding balance has become smaller as compared to previous years</td>
<td>41</td>
<td>3.15</td>
<td>.882</td>
</tr>
<tr>
<td>Our lending methodology is attractive to current and new customers</td>
<td>41</td>
<td>3.93</td>
<td>.905</td>
</tr>
</tbody>
</table>

Mean 3.5 .961

Source: Author (2018)
On whether the lending methodology is attractive to current and new customers, the respondents had a mean score of 3.93 and a standard deviation of 0.905. On whether the customer base has consistently increased over the past one year, the respondents had a mean score of 3.76 and a standard deviation of 0.86. On whether the MFI has a low loan repayment default rate, the respondents had a mean score of 3.44 and a standard deviation of 1.001. On whether the MFIs serve more women as compared to men, the respondents had a mean score of 3.24 and a standard deviation of 1.157. On whether the average loan outstanding balance has become smaller as compared to previous years, the respondents had a mean score of 3.15 and a standard deviation of 0.882.

A high mean indicates convergence of agreement by respondents while a low standard deviation shows little variation in the opinion. A mean score of 3.5 and standard deviation of 0.961 shows that the variables studied are indicators of sustainability for MFIs in Murang’a County.

4.6 Inferential Analysis

4.6.1 Diagnostic Tests

Before conducting a regression analysis to investigate the effect of predictor variables (cost leadership, focus strategy, differentiation strategy and product development strategy) on the dependent variable (sustainability) diagnostic tests were done. These were normality, linearity and multicollinearity tests.

4.6.1.1 Normality Test

For data sets that are smaller than 2000 elements, the Shapiro-Wilk test is used. Since the study had only 41 elements, the Shapiro-Wilk test was used. The findings are shown in Table 4.11
### Table 4.11: Normality Test

<table>
<thead>
<tr>
<th>Tests of Normality</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
</tr>
<tr>
<td>Cost Leadership Strategy</td>
<td>.943</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>.578</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>.909</td>
</tr>
<tr>
<td>Product development Strategy</td>
<td>.866</td>
</tr>
</tbody>
</table>

**Source:** Survey Data (2018)

The null hypothesis states that the data is normally distributed and the alternative hypothesis is that the data is not normally distributed. All the variables have a p value >0.05, leading to a rejection of the alternative hypothesis and conclude that the data had normal distribution.

### 4.6.1.2 Linearity Test

The relationship between the independent variable (cost leadership, focus, differentiation and product development strategies) and dependent variable (sustainability) was examined to find out if it was linear or not. If the value sig. deviation from linearity>0.05 then the relationship between the two are linearly dependent otherwise the relationship is not linear. Pearson’s correlation coefficient was used to test for linearity. The results are shown in Table 4.12.
Table 4.12: Linearity Test

<table>
<thead>
<tr>
<th>Linearity test</th>
<th>Deviation from linearity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
</tr>
<tr>
<td>Indicators of sustainability * Cost Leadership Strategies</td>
<td>1.146</td>
</tr>
<tr>
<td>Indicators of sustainability * Focus Strategies</td>
<td>.615</td>
</tr>
<tr>
<td>Indicators of sustainability * Differentiation Strategies</td>
<td>3.501</td>
</tr>
<tr>
<td>Indicators of sustainability * Product development Strategies</td>
<td>3.115</td>
</tr>
</tbody>
</table>

Source: Survey Data (2018)

From the analysis all the four independent variables had a linear relationship with the dependent variable as their significances are greater than 0.05.

4.6.1.3 Multicollinearity Test

Multicollinearity (also known as collinearity) test was conducted to identify correlation among the independent variables. Variance Inflation Factors (VIF) is used to identify the correlation between the independent variables and the strength of that correlation. Table 4.13 shows the findings.
4.6.2 Pearson’s Correlation Coefficient

Pearson’s correlation coefficient (bivariate correlation) examines how strong or weak the relationship between two variables is. Table 4.11 below shows the values for correlation values of the independent variable (cost leadership, focus, differentiation and product development strategies).

Table 4. 13: Multicollinearity Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std Error</td>
<td>Beta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.031</td>
<td>2.760</td>
<td>1.823</td>
<td>.047</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>.195</td>
<td>.122</td>
<td>.310</td>
<td>1.591</td>
<td>.020</td>
<td>.269</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>.342</td>
<td>.134</td>
<td>.373</td>
<td>2.544</td>
<td>.015</td>
<td>.671</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>.199</td>
<td>.129</td>
<td>.300</td>
<td>1.547</td>
<td>.031</td>
<td>.222</td>
</tr>
<tr>
<td>Product Development Strategy</td>
<td>.231</td>
<td>.180</td>
<td>.258</td>
<td>1.284</td>
<td>.042</td>
<td>.431</td>
</tr>
</tbody>
</table>

Source: Survey Data (2018)

Tolerance should be > 0.1 (or VIF < 10) for all variables, which they are. Therefore, all the independent variables meet the Collinearity test.
Table 4. 14: Pearson’s Correlation Coefficient

<table>
<thead>
<tr>
<th>Indicators Of Sustainability</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Leadership</td>
<td>.492</td>
<td>.001</td>
<td>41</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>.493</td>
<td>.001</td>
<td>41</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>.530</td>
<td>.002</td>
<td>41</td>
</tr>
<tr>
<td>Product Development Strategy</td>
<td>.495</td>
<td>.023</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: Author (2018)

A Pearson correlation value of 0.492 was observed between cost leadership strategy and sustainability of MFIs in Murang’a County. This indicates that there is a positive and fairly moderate correlation. A Pearson correlation value of 0.493 was observed between focus strategy and sustainability of MFIs in Murang’a County. This indicates that there is a positive and moderate correlation. A Pearson correlation value of 0.530 was observed between differentiation strategy and sustainability of MFIs in Murang’a County. This indicates that there is a positive and moderate correlation. A Pearson correlation value of 0.495 was observed between product development strategy and sustainability of MFIs in Murang’a County. This indicates that there is a positive and moderate correlation.
4.6.3 Linear Regression Analysis

Table 4.15: Linear Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.622a</td>
<td>.387</td>
<td>.319</td>
<td>2.089</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Product Development Strategy, Focus Strategy, Differentiation Strategy, Cost Leadership

Source: Author (2018)

The R-value of 0.622 is the correlation coefficient between all of the predictor variables and the dependent variable. This indicates that there is a great deal of variance shared by the independent variables and the dependent variable. The R Square (coefficient of determination) value of 0.387 describes the goodness-of-fit or the amount of variance explained by the set of predictor variables. It means that 38.7% of the variance in the sustainability is explained by the independent variables (cost leadership, focus, differentiation and product development). The implication of this information is that other factors not studied in this research contribute to 61.3% of the sustainability of the MFIs in Murang’a County.

4.6.3 ANOVA Model

The ANOVA table describes the overall variance accounted for in the model. The F statistic represents a test of the null hypothesis that the expected values of the regression coefficients are equal to each other and that they are equal to zero. Table 4.13 shows the findings.
Table 4.16: ANOVA Model

<table>
<thead>
<tr>
<th>ANOVA Model</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>4</td>
<td>24.757</td>
<td>15.674</td>
<td>.021</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Indicators of Sustainability

b. Predictors: (Constant), Cost Leadership, Focus Strategy, Differentiation Strategy, Product Development Strategy

Source: Author (2018)

The null hypothesis indicates that there is no relationship between sustainability of MFIs in Murang’a County (dependent variable) and cost leadership, focus, differentiation and product development strategies (predictor variables). However, it appears that the four predictor variables could be used to predict the dependent variable as is indicated by a large F value and a small significance level of 0.001<0.05.

4.7 Multiple Regression Analysis
Table 4.17 of multiple regression outputs provides information about the effects of individual predictor variables.
The multiple regression analysis shows that when leadership, focus, differentiation and product development strategies are held constant, the sustainability of MFIs would be 5.031. From the above table the established regression equation in the study was as follows:

\[ Y = 5.031 + 0.195 X_1 + 0.342X_2 + 0.199X_3 + 0.231X_4 + \varepsilon \]

Where:

\[ Y = \text{Sustainability of MFIs} \]

\[ \beta_0 \text{ is the constant} \]

\[ X_1 = \text{Cost leadership strategy} \]

\[ X_2 = \text{Focus strategy} \]

\[ X_3 = \text{Differentiation strategy} \]
\[ X_4 = \text{Product development strategy} \]

\( \varepsilon \) is the error term

Using the Unstandardized Coefficients, this equation implies that when all the independent variables are constant at zero, the sustainability of the MFIs was 5.031. When all the other independent variables are at zero, a unit increase in cost leadership strategy would lead to an increase in sustainability of MFIs by a factor of 0.195. When all the other independent variables are at zero, a unit increase in focus strategy would lead to an increase in sustainability of MFIs by a factor of 0.342. When all the other independent variables are at zero, a unit increase in differentiation strategy would lead to an increase in sustainability of MFIs by a factor of 0.199.

When all the other independent variables are at zero, a unit increase in product development strategy would lead to an increase in sustainability of MFIs by a factor of 0.231. If the Probability statistic (p-value) would be equal to or less than 0.05, the null hypothesis would be rejected. Cost leadership, focus, differentiation and product development had a statistical significance of 0.020, 0.015, 0.301, and 0.042 respectively, there the null hypotheses were rejected and the alternative hypotheses accepted. This implies that cost leadership, focus, differentiation and product development can positively predict the performance of the sustainability of MFIs.

Beta coefficients are based on data expressed in standardized or Z score form. Thus, all variables have a mean of zero and a standard deviation of one and are thus expressed in the same units of measurement. Examining the beta coefficients indicates focus strategy is the
best predictor of sustainability with a value of 0.37 followed by cost leadership with 0.310, then differentiation strategy with 0.300 and lastly product development strategy with a value of 0.258. In addition to the coefficients, the table also provides a significance test for each of the independent variables in the model. The significance test evaluates the null hypothesis that the regression coefficient for the predictor is zero when all other predictors' coefficients are fixed to zero. This test is presented as a t-statistic. All the predictor variables have a significant value less than 0.05, indicating that the null hypotheses that state that these variables regression coefficient is zero when all other predictor coefficients are fixed to zero can be rejected.

These findings concur with previous studies conducted by several authors (Kinyua, 2010; Mutai, 2012; Tomno, 2014; Kinyuira, 2014; Kaiganaine, 2015; Ombati &Muturi, 2017) which found out that cost leadership strategy, focus strategy and differentiation strategy positively influence the performance of MFIs in Kenya. According to the current study focus strategy is the most likely predictor of MFI sustainability. However, Kinyua (2010) and Tomno (2014) identified cost leadership strategy as most used strategy and the best predictor of performance respectively. The findings contradict the results by Kinyua (2010) that cost leadership strategy was used to a great extent by MFIs in Nairobi followed by focus strategy; while differentiation strategy was the least used competitive strategy. The results also contradict the findings by Ombati and Muturi (2017) and Kinyuira (2014) that cost leadership strategy was the most significant predictor of performance of MFIs, followed by differentiation strategy; while focus strategy was the least predictor of MFIs performance.
The current study revealed that product development strategy was the least predictor of sustainability of MFIs. The findings contradict the results by Mutai (2012) that product leadership strategy was the most adopted competitive strategy by MFIs, followed by differentiation strategy, cost leadership strategy and focus strategy respectively. In the current study, differentiation strategy ranks as the third most likely predictor of the sustainability of MFIs. However, this contradicts the findings by Kaiganaine (2015) that differentiation strategy was the most significant predictor of a sustainable competitive advantage for DTM s in Kenya; followed by focus strategy while DTM s were not found to adopt cost leadership strategies to gain a competitive advantage.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This study investigated competitive strategies and sustainability of MFIs in Murang’a County. In this chapter, a summary of findings are presented, conclusion and recommendations made in relation to study objectives.

5.2 Summary of findings
The general objective of this study was to determine the effect of competitive strategies on sustainability of MFIs in Murang’a County.

The study employed a descriptive survey design. Primary data was collected using a semi-structured questionnaire. The collected data was analyzed using both descriptive and inferential statistics. The descriptive statistics were used to summarize data, while inferential statistics were used to determine the relationship between cost leadership, focus, differentiation and product development strategies (independent variables) and sustainability of MFIs in Murang’a County (dependent variable).

The first objective of this study was to examine the effects of cost leadership strategy on sustainability of MFIs in Murang’a County. The study revealed that cost leadership strategy has a positive and statistically significant relationship with sustainability of MFIs. The null hypothesis was rejected; implying cost leadership influences the sustainability of MFIs in Murang’a County. The MFIs offered products/services to a broad customer segment; used technology like mobile banking; and had a flexible loan repayment schedule. The cost leadership strategy enables MFIs to achieve a competitive advantage by offering a fair price for their products, hence eventually attaining sustainability due to increased customers.
The second objective aimed at evaluating the effect of focus strategy on sustainability of MFIs in Murang’a County. The study revealed that focus strategy has a positive and statistically significant relationship with sustainability of MFIs. The study established that focus strategy was the best predictor of MFI sustainability in Murang’a County. The null hypothesis was rejected; implying focus strategy influences the sustainability of MFIs in Murang’a County. It was established that MFIs served specific markets with their products/services; their customers were largely small and medium enterprises; and focused on serving the customers from the low economic group. By adopting focus strategies MFIs concentrate on specific products in the market and are found in specific geographical areas in Murang’a County. This strategy enables the MFIs to retain their market share and at the same time attract new customers, thus achieving sustainability.

The third objective was to determine the effect of differentiation strategy on sustainability of MFIs in Murang’a County. The study revealed that differentiation strategy has a positive and statistically significant relationship with sustainability of MFIs. The null hypothesis was rejected; implying that differentiation strategy was found to influence sustainability of MFIs in Murang’a County. The MFIs were found to adopt differentiation strategies to a moderate extent to achieve sustainability. According to the findings the MFIs used both service and product differentiation strategies to attract and retain customers. The MFIs offered customers an exceptional premier customer service; had efficient, responsive and reliable delivery systems; offered unique products than those offered by their competitors; and relied on advertising to differentiate their products and build their corporate brand. Differentiation strategy enabled the MFIs to charge a premium price for their premier products/services
from customers who are not price-sensitive. This basically helps the MFIs to achieve sustainability.

The fourth objective of this study was to establish the effect of product development on sustainability on MFIs in Murang’a County. The study revealed that product development strategy has a positive and statistically significant relationship with sustainability of MFIs. The null hypothesis was rejected; implying that product development strategy was found to influence sustainability of MFIs in Murang’a County. However, of the four variables, product development strategy was found to be the least predictor of MFIs’ sustainability in Murang’a County. The study revealed that the following product development strategies were adopted by MFIs to a great extent: MFIs have developed new products/services for their customers; the use of ICT has enabled MFIs to produce innovative products not in the market, and MFI products/services were constantly modified to suit their customers' needs.

5.3 Conclusion
Sustainability of MFIs is crucial if these institutions are to continue providing financial services to the poor. The study concludes that cost leadership strategy affects sustainability of MFIs in Murang’a County. Managers of MFIs need to improve on lowering production costs by reducing overhead costs in advertising and R&D, and pricing products/services more fairly than competitors to be the achieve cost leadership. The study also concludes that focus strategy influences sustainability of MFIs in Murang’a County. Focus strategy enables MFIs to increase and retain their market share in ways that give them a competitive advantage thus achieving sustainability. For MFIs to achieve sustainability there is, therefore, need for managers to strengthen their adoption in the MFIs.
The study further concludes that the adoption of differentiation strategy by MFIs positively affects their sustainability. Both product and service differentiation increase the customer base and wins their loyalty, thus enabling the MFIs to charge more for these products/services. Finally the study concludes that as the MFI industry becomes mature and experiences intense competition from both new entrants and those already existing, product development strategies are important in ensuring sustainability of MFIs. However, the study found out that this is the least used strategy by MFI management in Murang’a County.

5.4 Recommendations
This study would want to make the following recommendations. First, in order to achieve sustainability, managers of MFIs should adopt cost leadership strategy. However, since this strategy had a correlation of less than 0.5, there is a need to strengthen its adoption. The MFI should research on and implement strategies that will enable them to price their products/services more fairly than competitors for them to increase their client base hence achieve sustainability.

Second, the study recommends that MFIs to continue adopting the focus strategy to achieve sustainability of MFIs. This is because focus strategy was the best predictor of sustainability. The MFIs need to continue to identify specific markets for their products and services and target the large market offered by the vibrant SME sector. They also need to focus on individual customers and offer attractive products because many of them may be put off by the solidarity and group lending methods.

Third, the study recommends that MFIs should continue using differentiation strategy to achieve sustainability in Murang’a County. The MFIs can use service differentiation to
attract and retain customers. The MFIs should continue offering an exceptional and premier customer service and invest in efficient, responsive and reliable delivery systems.

Fourth, the study recommends that MFIs should adopt product development strategy for them to achieve sustainability. MFIs need to invest in R & D to come up with innovative products that would be appropriate for the preferences of ever demanding and conscious customers. There is also need for MFI managers to improve on the adoption of this strategy because the results revealed that of the four competitive strategies it was the least predictor of sustainability. The R & D departments should be strengthened to ensure they not only modify existing products/services, but also produce innovative products tailor-made to suit changing needs of MFI customers.

5.5 Suggestion for Further Research
This study investigated competitive strategies and sustainability of MFIs in Murang’a County. The study recommends that in future a similar study should be conducted in other counties in order to compare the research findings. The findings of this study reveal that product development is the least competitive strategy to predict MFI sustainability; future studies may also be interested in investigating how the MFIs have adopted product development strategy to achieve sustainability.
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Mosiria, M.M. (2012). Relationship between internal growth strategies and performance in selected banks in Nairobi, Kenya (Unpublished MBA Project, Kenyatta University.)


Omollo, D.A. (2013). Competitive strategies applied by Bank agents to sustain their market share (A case of commercial banks in Migori County). (Unpublished MBA Project, Kenyatta University)


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Dear Respondent,

**RE: QUESTIONNAIRE ON “COMPETITIVE STRATEGIES AND SUSTAINABILITY OF MFIs IN MURANG’A COUNTY”**

I’m a postgraduate student at Kenyatta University pursuing a Master in Business Management (Strategic Management). This questionnaire is part of a research project which is a partial fulfillment of the requirements for the award of this degree. Your help is important in helping me complete the project. Please respond to all questions as directed. All information will be treated with utmost confidentiality and will only be used for the purpose of the study.

Thank you for your cooperation and taking your time to fill this questionnaire. I greatly appreciate your help.

Yours sincerely,

Caroline Kahingo
Appendix II: Questionnaire: Competitive Strategies and Sustainability of MFIs in Murang’a County
Section A: Background Information

Please indicate with a tick your appropriate answer.

1. Name of MFI________________________________________________

2. Your sex Male □ Female □

3. Age bracket
   Above 60 years □ 50-59 years □ 40-49 years □ 30-39 years □ 25-29 years □

4. Educational background
   i. Post graduate □
   ii. Undergraduate □
   iii. Diploma □
   iv. High school □

   Any other (please specify) ______________________________

5. Please indicate your job position ________________________________

6. What is your work experience in years at the MFI?
   1-5 years □ 6-10 years □ 11-15 years □ 16-20 years □

   Any other (please specify) ________________________________

7. How many branches does your MFI have in Murang’a County?
   1-5 □ 6-10 □ 11-15 □ Any other (please specify) _______

8. How long has the MFI been operating in Murang’a County?
0-5 years ☐ 6-10 years ☐ 11-15 years ☐ Any other (please specify) ______

9. Please indicate the total number of clients to date that the MFI has

0-1000 ☐ 1001-2000 ☐ 2001-3000 ☐ 3001-4000 ☐

Any other (please specify) ____________

10. Please indicate with a tick the type of firm charter (institutional type) that your MFI is.

DTM ☐ Credit-only MFI ☐ Wholesale MFI ☐ Microfinance bank ☐

11. Please indicate with a tick the lending methods used by your MFI.

Individual lending ☐
Solidarity lending ☐
Village banking ☐
Both individual lending and solidarity group ☐
Both individual lending and village banking ☐
Combined-individual, solidarity group and village banking ☐

12. Please indicate with a tick the type of products that your MFI offers to your customers.

i. Business loans ☐
ii. Personal/consumer loans ☐
iii. Agricultural loans ☐
iv. Savings ☐
v. Insurance ☐
vi. Money transfer ☐
vii. Asset financing

viii. Pension services

ix. Others (please specify) __________________________________

Section B: Competitive Strategies and Sustainability of MFIs in Murang’a County

Please indicate with a tick the extent to which your MFI uses the following cost leadership strategies to achieve a competitive advantage on a scale of 1-5 scale where: 1-Not at all, 2-little extent, 3-moderate extent, 4-Great extent and 5-Very great extent

<table>
<thead>
<tr>
<th>Cost leadership strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Our products/services are more fairly-priced than our competitors.</td>
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<tr>
<td>14. The MFI has a flexible loan repayment schedule that makes our products/services cheaper than others</td>
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<tr>
<td>15. The MFI takes advantage of economies of scale to lower the transaction costs</td>
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<tr>
<td>16. Use of technology e.g. mobile banking contributes to making our transaction costs lower</td>
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<tr>
<td>17. The MFI has reduced its overhead costs in advertising and R&amp;D to lower our production costs</td>
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<tr>
<td>18. The MFI offers some grace period before repayment of loans</td>
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<tr>
<td>19. We offer our products/services to a broad customer segment</td>
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</tbody>
</table>
Please indicate with a tick the extent to which your MFI uses the following focus strategies to achieve a competitive advantage. Use the point scale where: 1-Not at all, 2-little extent, 3-moderate extent, 4-Great extent and 5-Very great extent

<table>
<thead>
<tr>
<th>Focus strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
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</thead>
<tbody>
<tr>
<td>20. Our MFI has identified specific markets for our products/services</td>
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<tr>
<td>21. The MFI only concentrates on specific products in the market</td>
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<tr>
<td>22. The MFI is found in specific geographical areas in the Murang’a County</td>
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<tr>
<td>23. Most of our customers are from the low economic group</td>
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<tr>
<td>24. The MFI’s customers are largely small and medium enterprises</td>
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</table>

Please indicate with a tick the extent to which your MFI uses the following focus strategies to achieve a competitive advantage on a scale of 1-5 scale where: 1-Not at all, 2-little extent, 3-moderate extent, 4-Great extent and 5-Very great extent

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
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</thead>
<tbody>
<tr>
<td>25. Our MFI offers unique products than those offered by our competitors</td>
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<tr>
<td>26. Our delivery systems are efficient, responsive and reliable</td>
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<tr>
<td>27. We offer our customers an exceptional, premier customer service</td>
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<td>28. The locations of our branches, opening hours, physical layout and design differentiate us from others in the market</td>
<td></td>
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</tbody>
</table>
29. Our use of IT such as ATMs and card based savings enable us to attract and retain our customers

30. Our corporate image is recognized as a symbol of reliability in the industry

31. We rely on advertising to differentiate our products and build the corporate brand

Please indicate with a tick the extent to which your MFI uses the following product development strategies to achieve a competitive advantage on a scale of 1-5 scale where: 1-Not at all, 2-little extent, 3-moderate extent, 4-Great extent and 5-Very great extent

<table>
<thead>
<tr>
<th>Product development strategies</th>
<th>1</th>
<th>2</th>
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</thead>
<tbody>
<tr>
<td>32. We have developed new products/services for our customers</td>
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<tr>
<td>33. Our products/services are constantly modified to suit our customers’ needs</td>
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<td>34. The use of IT has enabled us to produce innovative products not in the market</td>
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<tr>
<td>35. We have a strong R &amp; D department charged with designing innovative products for our customers</td>
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</table>

Section C: Sustainability of MFIs in Murang’a County

Please indicate with a tick the extent to which your MFI uses the following strategies to achieve a competitive advantage on a scale of 1-5 scale where: 1-Not at all, 2-little extent, 3-moderate extent, 4-Great extent and 5-Very great extent
<table>
<thead>
<tr>
<th>Indicators of sustainability</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>36. Our customer base has consistently increased over the past one year.</td>
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<td>37. We serve more women as compared to men</td>
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<td>38. The MFI has a low loan repayment default rate</td>
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<td>39. The average loan outstanding balance has become smaller as compared to previous years</td>
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<tr>
<td>40. Our lending methodology is attractive to current and new customers</td>
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</tbody>
</table>

Thank you very much for your cooperation.
Appendix III: Microfinance Institutions in Murang’a County

1. All Churches Microfinance
2. Amica
3. BIMAS
4. Eclof
5. Equity Bank
6. Faulu
7. Family Bank
8. Greenland Fedha
9. Jamii Bora
10. Kadet
11. K-Rep
12. KWFT
13. Mentor Sacco
14. Murang’a Teachers Sacco
15. Post Bank
16. Rafiki
17. Rubet
18. SMEP
19. Unaitas
20. Women Enterprise Fund
Appendix VI: Letter of Authorization

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 87330

Our Ref: D53/OL/CTY/26621/2014

DATE 23rd May, 2017

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR CAROLINE MUHONJA KEA KAHINGO – REG. NO.
D53/OL/CTY/26621/2014

I write to introduce Ms. Caroline Muhonja Kahiingo who is a Postgraduate Student of this
University. She is registered for M.B.A degree programme in the Department of Business
Administration.

Ms. Kahiingo intends to conduct research for a M.B.A Project Proposal entitled, “Competitive
Strategies and Sustainability of Microfinance Institutions in Murang’a County Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,

MRS. LUCY N. MBAABU
FOR: DEAN, GRADUATE SCHOOL
Appendix V: Research Permit

THIS IS TO CERTIFY THAT:
MS. CAROLINE MUNJIA KEILA KAHINGO
of KENYATTA UNIVERSITY, 0-515 Buru
Buru, has been permitted to conduct
research in Murang'a County
on the topic: COMPETITIVE STRATEGIES
AND SUSTAINABILITY OF MICROFINANCE
INSTITUTIONS IN MURANGA
COUNTY, KENYA
for the period ending:
18th September, 2018

Applicant's
Signature

Permit No: NACOSTI/P/17/37094/19141
Date Of Issue: 19th September, 2017
Fee Received: Ksh 1000

[Signature]
Director General
National Commission for Science,
Technology & Innovation