

**COMPETITIVE STRATEGIES AND PERFORMANCE OF MICROFINANCE
BANKS IN NAIROBI CITY COUNTY, KENYA**

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DECLARATION

Declaration by the Student

I declare that this project is my original work and has not been submitted for an award of a degree in any other University for examination purposes.

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This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

This work is dedicated to the Almighty God and my family for their unwavering support. My research is dedicated to my late dad Mr. Joseph K. Bett, my mum Mrs. Ruth C. Bett and my wife Mrs. Joyline C. Bii, I owe you immeasurable gratitude. Thank you for your encouraging words towards completing my studies. To my siblings thank you for providing shoulders to lean on during my studies.

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ABBREVIATIONS AND ACRONYMS

AMFI:	Association of Microfinance Institutions
ANOVA:	Analysis of Variance
BSC:	Balance Score Card
CBK:	Central Bank of Kenya
FMCG:	Fast-Moving Consumer Goods
GDP:	Gross Domestic Product
MFBS:	Microfinance Banks
MFI:	Microfinance Institutions
NACOSTI:	National Council for Science, Technology and Innovation
PDS:	Product Development Strategy
ROA:	Return on Assets
ROE:	Return on Equity
SPSS:	Statistical Package for Social Sciences
SMEs:	Small and Medium Enterprises

OPERATIONAL DEFINITION OF TERMS

Competitive Strategies: They are long term change put in place by organizations to gain competitive edge. Customer focus strategy, differentiation strategy and cost leadership strategy were in this study.

Cost Leadership Strategy: Cost leadership is a strategy for companies to reduce costs in an efficient manner and make their overall costs lower than competitors' costs or perhaps even the cheapest in a given sector in order to gain a competitive advantage. It was measured by minimal labour cost, low operational cost, and low service cost.

Customer Focus Strategy: It entails organizations being involved and having a relationship with their customers, this helps in getting feedback from them and then using it to implement competitive strategies that can enhance their performance. It was measured as prioritizing customer needs, handling complaints and building trust.

Differentiation Strategy: It is the method in which organizations advertise their products and services in ways that differentiates itself from other competitors' products and services. It was measured as product differentiation, service differentiation and brand loyalty.

Firm Performance: It is the level of company competitiveness achieved by achieving a certain or specified level of productivity and efficiency that also ensures sustained market presence. It was measured as market share, profitability and customer satisfaction.

Microfinance Institutions: They aim at helping the less privileged via the means of innovative approaches such as group lending, collateral substitutes, regular repayment schedules and progressive lending.

ABSTRACT

Globally, the presence of more competitions calls for organizations to adjust and make changes to their competitive strategies in a way to improve their performances. In Kenya, microfinance banks have been noted to have really poor performances which has majorly been closely linked to inadequate competitive strategies. Microfinance banks have a small market share since they struggle to keep clients. Using Return on Equity as a statistic, the profitability of microfinance banks fell from 27.1% in 2015 to 25% in 2016, while using Return on Assets as a metric, it fell from 26% in 2015 to 25% in 2016. The Return on equity and return on assets percentages were at 23 percent in 2017 and further decreased to 21.1 percent for Return on assets. From 1.05 percent in 2014 to 0.79 percent in 2018, their market share decreased. This decline needs to be improved to increase the performance of microfinance banks and to prevent them from bankruptcy. The study seeks to examine the effect of competitive strategies mainly on the performance of Microfinance banks in Nairobi City County, Kenya. Specifically, the objective of the study is to determine the impact of customer focus strategy, differentiation strategy and cost leadership strategy mainly on the performance of microfinance banks in Kenya. The balanced score card model, Porter's generic competitive strategies theory and dynamic capabilities model were made use of to underpin the independent and dependent variables. The study focused on licensed Deposit Taking Microfinance banks operating in Nairobi, Kenya which are thirteen (13) in number using the method of census sampling. The study aims at utilizing primary data through the use of questionnaires from finance managers and assistants, marketing managers and assistants and operations managers and assistants. Purposive sampling based on a sample size of seventy-eight was used and, the gathered primary data was assessed using descriptive statistics and inferential analysis and the findings was presented in tables as the study was subjected to all research ethics. With regard to the outcome, customer focus strategy significantly and positively affected performance; differentiation strategy affected microfinance banks' performance positively in a significant manner; and cost leadership strategy having positive and significant effect on the Nairobi City County' microfinance banks' performance in Kenya. The study suggests that the management of the banks should conduct a customer screening to determine the best needs of the customers to enable the banks to focus on the strategy that best accommodates these needs for maximum performance of the banks.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Globally, the way technology evolves as well as the presence of more competitions call for organizations to adjust and make changes to their competitive strategies in order to enhance their performances (Wairimu & Kirui, 2020). However, the competitive strategies options to be adopted by the organizations is dependent on their market competitors. Organizations that implement long term competitive strategies have advantages which is quite competitive over in the market which helps to improve their outputs and sustenance (Enzama, 2020). The performance of organizations is often measured in terms of its capacity to respond and solve crisis, gain competitive advantage and how they can effectively utilize their resources (Wairimu *et al.*, 2020). Therefore, the performance of an organization can be argued to be the resultant result of their competitive strategies and operations.

Competitive advantage is the capability of a firm to keep abreast with future threat and competition by implementing competitive strategies which provides them with superior benefits above their rivals in the market and also helps to improve their outputs (Enzama, 2020). One of the competitive strategies' organizations adopt is the cost leadership strategy in which they offer low cost of goods and services, in the United States for instance the retail company known as Walmart leverages on cost leadership strategy in staying relevant and in enhancing their performance (Josiah & Nygara, 2015). In addition, organizations can also adopt customer focus strategy in improving their performance just like in Australia in which the banking industry and Fast-Moving Consumer Goods (FMCG) industry have had to adopt the customer

focus strategy by providing user and customer friendly services in responding to their needs (Waititu, 2014).

In Kenyan, the banking industry has suffered decline in performance which has been linked to ineffective competitive strategies. In the Insurance industry for instance, they have been able to sustain penetration into the market and they have not been able to retain customers and also have new customers (Ngugi & Waithaka, 2020). The microfinance banks in Kenya due to rising competitions have had to deal with addressing customer needs and retaining them, poor customer satisfaction and poor performance. Also, there have been cases of limited resources needed to generate profit thus it is important that competitive strategies are introduced by the microfinance banks to gain competitive advantage in the market (Mutai, 2012).

1.1.1 Firm Performance

Achieving better performance is the objective of any enterprise. High performance indicates that the enterprise has been successful. Success of a firm is measured in terms of business performance. Ali, Ibrahim Alasan, Hussain Khan, Ali, Cheah, and Ramayah (2022) further indicated that profitability is the commonly used performance measure. Furthermore, production of new products and services, lowering firm costs, increase in firm revenue, improvement in quality of customer service and improvement of work productivity are some of the objective measures used in evaluating firm performance (Bagorogoza & Waal, 2010).

Firm performance is described as the extent of a company's competitiveness, achieved through reaching a specific level of productivity and efficiency. This, in turn, guarantees a sustainable presence in the market. Performance measurements of firms entail the representation of quantification of results of various firm activities carried

out during a certain time period (Juma & Okibo, 2016). In assessing firm performance, there arises the need to ascertain the linkage existing between firm objectives, indicators of performance, firm results or outcome and the relevance of the performance metrics. Mostly in the modern world, performance of firms is assessed through the three models. The models are balanced score card model, Deming model and Baldrige model (Langat, 2015).

The balanced score card model seeks to incorporate both financial and non-financial measurement when measuring firm performance. The key objective of this model is to present a firm the opportunity to translate the corporate strategy of the firm into action (Ngugi & Waithaka, 2020). Another model for performance is the Deming model, the model advocates for the identification of variations in a firm's production process and thereafter fixing these variations. Lastly, the Baldrige model is also largely utilized. The model indicates that the various standards utilized in measuring firm performance should be those derived from the firm's business strategy which must also have the ability to relevant information (Juma & Ogbo, 2016). The study utilized the Balance Score Card Model in assessing the performance of Microfinance Banks in Nairobi City County, Kenya because it focuses on how performance can be improved through various perspectives. Market share, profitability and customer satisfaction was used in measuring performance.

1.1.2 Competitive Strategies

Porter's generic competitive strategies expand the scope on competitive positioning by encouraging firms to maintain long-term success given its strengths and opportunities while on the other hand minimize the negative impact of weaknesses and threats (Ngugi & Waithaka, 2020). These aggressive methodologies plan to set up

a productive and manageable position against the powers that decide industry rivalry. Competitive strategies are long-term strategies put in place by organizations to have competitive advantage above their competitors in the market. Johnson (2016) stated that organizations implement differentiation strategy, cost leadership strategy, customer focus strategy and cost strategy. However, for this study, cost leadership strategy, differentiation strategy and customer focus strategy were studied as these strategies are considered unique and relatively explored by other scholars.

Lester (2015) observed that competitive strategy allows an organization to outline the enterprise presently as well as in the future, and chose the markets to enter into. Ansoff (2010) observes that corporations that have advanced competitive strategies have a tendency to be nicely aligned and bring higher financial effects and performance than those which aren't. Companies require competitive strategies for their survival. This is specially the case if the firm is contending in markets overflowing with alternatives for purchasers. In line with Thompson and Strickland (2014), a competitive strategy refers to an extended-time period plan of action that an organization devises toward accomplishing a competitive advantage over its competitors after establishing the strengths and weaknesses of the latter and comparing them to its own.

Customer focus strategy is defined as the ability of a firm to gather relevant information about their customers in order to gain competitive advantage (Watson, Wilson, Smart & Macdonald, 2018). The customer focus strategy entails organizations being involved and having a relationship with their customers, this helps in getting feedback from them and then using it to implement competitive strategies that can enhance their performance (Santos, Perin, Simoes & Sampaio,

2020). A customer focus strategy helps organizations keep abreast with evolving customer needs (Frambach, Fiss & Ingenbleek, 2016).

Differentiation strategy is the method in which organizations advertise their products and services in a manner which differentiates itself from other competitors' products and services (Isaboke, 2018). Through differentiation strategy, organizations are able to gain competitive advantage which then helps to improve their overall performance (Njroge, 2017). The concept of differentiation strategy involves building unique products that stands out in the market in addition to building the organization's brand image regarding quality of service, providing options, operating hours, design etc. (Nuru, 2015)

Cost leadership strategy according to Birjandi, Jahromi, Darasi and Birjandi (2014) is a firm's capacity to provide services and products of lower costs than their competitors. The cost leadership strategy focuses on the concept of low cost as leverage to having a large market share (Wairimu *et al.*, 2020). In line with Josiah *et al.* (2015), Using a cost leadership approach that results in rapid asset turnover and little direct and indirect overhead costs is another approach and having authority on the procurement and supply chain.

1.1.3 Micro Finance Institutions in Kenya

Microfinance institutions have become a crucial tool for poverty alleviation on a global scale. These institutions, often referred to as MFIs, strive to assist the less fortunate through innovative methods like group lending, ongoing financial support, regular repayment schedules, and alternatives to traditional collateral. In the eyes of a banker, a microfinance institution is considered sustainable when the revenue

generated from loans is sufficient to cover all operational expenses (Kisala, 2014). Over the years in Kenya, a change of interest in microfinance majorly by those who formulate policies as well as those who practice it. This interest generally is dependent on the degree of importance of its contribution which is a means of enhancing the livelihoods of the rural unbanked country population through laws, regulations and programs focused on inequalities emerging from the country's socio-political history (Wanjiru, 2016).

The Societies Act listed the Association of Microfinance Institutions (AMFI) in 1999 as an extended body to represent the Microfinance Institutions functioning in Kenya (CBK, 2018). The AMFI's activities are directed towards helping and aiding the improvement and development of MFIs by raising adequate, effective and thorough delivery of microfinance institution services. Over the years, MFIs has always been involved in the promotion and the growth of microfinance institutions in Kenya as well as encouraging MFIs to attain more capacity level so as to surpass some of the problems affecting the sector AMFI was important in drafting and analyzing the Microfinance Bill which was passed and enacted into law in 2006 (Ndegwa, 2018).

Although Kenya has more than 250 organizations which engage in microfinance business, about 20 practice pure microfinance (Wanjiru, 2016). The remaining of the MFIs join microfinance with other forms of social assistance endeavors. According to the Microfinance Act, MFIs in Kenya are mainly divided into three separate forms, with the first form which is the deposit-taking institutions such as Microfinance banks, the second form which is the credit only facilities and the third form which is the informal organizations controlled by an external agency other than the government (CBK, 2018). On 21st May 2016, the Central Bank of Kenya in its motive to enhance the banking sector gave license to another deposit taking Microfinance

banks. Thereby, making the total number of deposit-taking Microfinance banks to be thirteen (see appendix II).

1.2 Statement of the Problem

In Kenya, microfinance banks remain crucial to the country's economy by allocating of funds to the unbanked population through its various lending activities. It has been deduced that about 18 percent of private investment capital is obtained from MFIs in Kenya through individuals and small business entities towards establishing SMEs, obtainment of agricultural land, housing and encouraging education as well as other financial needs (Kisala, 2014). The impoverished are the main focus of microfinance banks through the use of cutting-edge strategies including collaborative lending, continuous lending, consistent payback schedules, as well as collateral replacements. According to bankers, microfinance institutions must have been sustainable when their operational income from loans is adequate to repay all of their running expenses (Wanjiru, 2016).

Despite efforts to simplify the banking industry, the majority of banks have been closed or placed in receivership. There is a large gap in the demand for microfinance banks services which has resulted in their poor performance and low market share unlike their counterpart which is the commercial banks and this collapse has been closely linked to lack of effective competitive strategies (Kisuna & Gogo, 2017). According to Mutai (2012), microfinance banks have low market share as they have been unable to retain their customers. According to CBK (2018), the profitability of microfinance banks using Return on Equity (ROE) as a metric declined from 27.1% in 2015 to 25% in 2016, also using Return on Assets (ROA), it decreased from 26% in 2015 to 25% in 2016. In 2017, ROE and ROA was at 23% for ROE and ROA which

further declined to 21.1% for ROA. Their market share dropped from 1.05% in 2014 to 0.79% in 2018 (Central Bank of Kenya, 2018).

Majority of studies have been assessed by researchers in laying down the relationship which exists between competitive strategies and performance. Nuru (2015) a positive link between differentiation strategy and profitability, but the use of cross-sectional research design was identified as a research gap, similarly, Gorondutse and Hilman (2017) established a positive relationship also, but utilized a moderating variable. Ngugi *et al.* (2020) although having utilized both primary and secondary data which poses as research gap indicated that cost leadership strategy has a positive impact on the profitability of insurance banks in Kenya while Santos *et al.* (2020) determined from their study that customer focus strategy enhances financial performance of companies in Brazil which poses a geographical gap.

Locally, Karanja (2017) considered aggressive techniques by land firms and found that most firms utilized differentiation, cost initiative however to a lesser degree and thin focused differentiation. Obado (2005) took a gander at focused systems utilized by sugar producing firms in Kenya. He found that they utilized cost authority and differentiation as the principal procedures. Ngandu (2014) considered on the impact of focused techniques on the execution of Hotel industry in Thika Sub County the discoveries of his examination demonstrated that the methodology with the most grounded effect on the execution of lodgings is differentiation system. Further, Gathinji (2014) examine the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study revealed that competition is high in the industry and product differentiation and low-cost leadership are the most commonly used strategies.

However, there are limited studies related to microfinance banks in Kenya and due to the poor performance of microfinance banks and its negative implication to the economy in the non-financial inclusion of lower income groups, the purpose of this study is to determine the connection between competitive strategies and performance of Microfinance banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

To examine the effect of competitive strategies on performance of Microfinance banks in Nairobi City County, Kenya.

1.3.2 Specific Objectives of the Study

- i. To examine the effect of customer focus strategy on performance of Microfinance banks in Nairobi City County, Kenya.
- ii. To determine the effect of differentiation strategy on performance of Microfinance banks in Nairobi City County, Kenya.
- iii. To examine the effect of cost leadership strategy on performance of Microfinance banks in Nairobi City County, Kenya.

1.4 Research Questions

- i. How does customer focus strategy affect the performance of Microfinance banks in Nairobi City County, Kenya?
- ii. How does differentiation strategy affect the performance of Microfinance banks in Nairobi City County, Kenya?

- iii. How does cost leadership strategy affect the performance of Microfinance banks in Nairobi City County, Kenya?

1.5 Significance of the Study

The study would serve different purposes. These include providing more insights to managers of Microfinance Banks on the effective competitive strategies to adopt in line with their organizational structure in order to improve their performance. Additionally, policy makers would benefit from this research as the policy recommendations presented in this study would provide guidelines and insight on policies that benefit organizations as regards competitive strategies. Lastly, people in academics and researchers would gain from the study's conclusions as a template and origin for additional studies.

1.6 Scope of the Study

The study sought to investigate the effect of competitive strategies on performance of Microfinance banks in Nairobi City County, Kenya. The variables which are independent are customer focus strategy, differentiation strategy and cost leadership strategy while the dependent variable is performance. The balanced score card model, Porter's generic competitive strategies theory and dynamic capabilities template were used to underpin the independent and dependent variables. The study dependent on licensed Deposit Taking MFI's operating in Nairobi, Kenya which is thirteen in number (see appendix II) using census sampling method. The study aimed at utilizing primary data that was gotten with questionnaires from finance managers and assistant, marketing managers and assistants and operations managers and assistants. The gathered primary data was assessed using descriptive statistics and inferential analysis and the results are shown in tables.

1.7 Limitation of the Study

When a researcher uses primary data, the respondent's attitude toward the questionnaire is the foremost frequently noticed constraint they encounter. Some of the respondents might not be eager to supply the accurate data needed for the study. The main reason for this is the worry about being harassed. In any case, the researcher dealt with the issue by ensuring the respondents that their answers were kept totally private and utilized for academic reasons. Also, the study focusing on only microfinance banks in Nairobi, Kenya might pose as a limitation as its findings may likely not be relevant to other sectors. However, the findings of the study would be useful to management of microfinance banks in Kenya in knowing the effect of competitive strategies on their performance.

1.8 Organization of the Study

The study is based on the following sections; the ongoing chapter contains the research background, objectives of the research, research scope and limitations. Chapter two is the literature review which is the theoretical review and empirical review of the study. Chapter three comprises of the methodology of the study. It shows the research design, target population, sampling design and empirical model of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This particular chapter consists of reviews based on theoretical perspectives and empirical literature. It also incorporates diagrammatic linkage between the variables used for the research in the form of conceptual framework.

2.2 Theoretical Review

The Balanced Score Card Model, Porter's Generic Competitive Strategies Theory and Dynamic capabilities Theory was utilized in the study. These theories support the association between competitive strategies as well as performance which happens to be the independent and dependent variables of the study respectively.

2.2.1 The Balance Score Card Model

Kaplan and Norton propounded the Balanced Score Card Theory in early 1992 (Kaplan & Norton, 1992). Executives and managers that use the balance score card model develop effective and efficient performance analysis techniques. Across a variety of elements, including both financial and non-financial measurements, the model encourages the usage of performance models. Financial Overview, Customer overview, Internal Business Process viewpoint, and Training and Development viewpoint are the four main viewpoints of BSC. The long-term objectives of a company are represented by its financial viewpoint, which aims to maximize returns on the unit's capital investment. The traditional method of assessing organizational success is referred to as financial measures and it comprises of elements such as profitability, revenue per sales and sales growth. The essence of incorporating extra measures as a determinant of success is emphasized by the BSC. Consequently, the

necessity for financial metrics continues to be a very solid foundation for assessing performance. (Hult & Olson, 2011).

In the selection of measures for the BSC customers' view is dependent on the customer type and the benefits they obtain from the organization. This in turn enables the adoption and creation of new organizational strategies which is in line with their customer type. For the proper development of an organization, for success, the internal business process viewpoint is necessary. The majority of businesses would prioritize factors like order processing, shipping, production, and product advancement, for instance (Martins, 2015). The major focus of this viewpoint is in a way connected to the customers' view due to the fact that the satisfaction derived by the customers is dependent on how important the organization is to them. Lateness during delivery gets customers more uncomfortable, an organization must therefore focus more on a more effective delivery method or create a more refined version of the currently used system.

For the accomplishment of this method, managers are hence going through a series of analysis which are quite difficult in evaluating the company's internal procedures, but remodeling new things preceding global competition has considerably reduced the time allocation of firms can influence the profitability of their product launches (Wawira, 2016). A successful scorecard is mostly due to the view of learning and growth since it relates to staff competencies and information platforms. Learning and development can encompass matters like the level of happiness experienced by workers, how well their abilities match their positions, how many of their recommendations are put into effect, and how many hours they spend in training (Karaba, 2012). The balanced score card theory focuses on how performance can be improved through various perspectives. Thus, this model was used to anchor the

dependent variable which is performance. The study is therefore largely anchored on BSC model which underpins the dependent variable.

2.2.2 Porter's Generic Competitive Strategies Theory

The Porter's Generic Competitive Strategies Theory was propounded by Porter in 1980. It is based on the concept of cost leadership strategy, focus strategy and differentiation strategy (Isaboke, 2018). This theory emphasizes that in order for organizations to effectively utilize their resources, one of the strategies must be chosen and implemented. However, this assertion was critiqued by Hill (2001) and other researcher who believed most organizations can select one or more of the strategies (Karnani, 2004). Ross (1999) further stated that the strategy organizations eventually choose must be in line with their organizational goals and objectives. For a cost leadership strategy, firm have to use low-cost advantage to gain superior leadership in the market (Davidson, 2008). Firms that effectively utilize the cost leadership strategy are firms that access to more capital and have the competencies and skills for designing top notch products (Hyatt, 2008).

The differentiation strategy opines that organizations build products and provide services that are unique and excellent better than their fellow competitors; this helps them improve their market share and the organization's image (Kiechel, 2010). It further states that organizations that can effectively utilize this strategy have to invest in scientific research and have high valued sales and creative team (Malburg, 2007). The focus strategy involves organizations focusing on a particular niche or market segment through the use of either the cost leadership strategy or the differentiation strategy (Grant, 2012). The theory is relatable to the study in that it explains the importance of differentiation and cost competitive strategies in facilitating the

performance of a firm and was thus, used to anchor differentiation strategy and cost leadership strategy in this study.

2.2.3 Dynamic Capabilities Theory

The dynamic capacities hypothesis was first developed in 1997 by Shuen, Teece and Pisano. The theory focuses on the level of company's competitiveness, achieved by gaining a certain or specified level of productivity and efficiency that also ensures sustained market presence (Teece et al., 1997). Helfat and Peteraf (2009) revealed that the theory of dynamic capabilities is concerned about the effective and efficient usage of organizational resources and how they are flexible enough to use resources to suit prevalent issues. In line with Zahra, Sapienza and Davidson (2006), organizations that are customer centric in establishing competitive strategies would effectively be able to use their internal and external resources to improve their performance and image in the market. Teece (2007) opine that organizations should endeavor to identify threats and opportunities in the market and then use the information to plan and implement competitive strategies.

Zahra *et al.* (2006) asserts that the theory of dynamic capabilities is about channeling and sustaining competitive advantage of firms. According to Helfat *et al.* (2009), the dynamic capabilities of a firm is superior to the operational capabilities in achieving competitive advantage, organizations have to utilize their short-term market situation into competitive advantage. They further stated that all assets of an organization, which includes both tangible and intangible assets, are to be channeled by the organizations in achieving competitive advantage. The theory emphasizes the need for market feedback from customers which can be through cost leadership strategy or differentiation strategy (Teece, 2007). The theory is applicable to the study as it

argues that customer focus strategy and cost leadership strategy positively affect the output of a firm, which forms specific objectives of the study.

2.3 Empirical Review

Related literature on customer focus strategy, cost leadership strategy and differentiation strategy their impact on performance was reviewed.

2.3.1 Customer Focus Strategy and Performance

Waititu (2014) investigated how customer centric strategy influences the profitability of commercial banks in Kenya. The use of descriptive research method was adopted by the researcher in targeting all 43 commercial banks in Kenya selected through census sampling technique. Structured questionnaire was the research instrument used to gather responses from 129 respondents which was coded on the SPSS software and analyzed using descriptive analysis methods which are means, standard deviation and percentages. The results of the analysis revealed that A customer-centric approach has a favorable impact on how well commercial banks function. Although the aforementioned study is relevant for all banking industry, its findings is targeted at commercial banks, thus, this present study targeted at microfinance banks in Kenya.

Mohiuddin (2018) determined the effect of firm's customer orientation on their performance while putting into consideration the role of inter functional commitment and coordination of employees. The study adopted survey research design by gathering survey data from UK service companies, the target population consists of middle and senior managers of human resource departments, marketing department and operations and strategy department which were chosen randomly. For the analysis of data, structural equation modeling using AMOS 22, the analysis results established

that firm's customer orientation significantly affects its performance. However, analysis of the previous study was done using structural equation modeling on AMOS 22 platform while the analysis of the current study was carried out by utilizing descriptive and inferential analysis method on the SPSS platform.

Santos *et al.* (2020) conducted a study to assess whether or not customer orientation has an effect on financial performance. The study used a cross-sectional survey approach and included inventive capability as a moderating attribute. Business managers in Brazil were the study's target group, and 153 replies to a questionnaire were obtained from them. The data obtained was analyzed using regression analysis which proved that customer orientation has a significant effect on financial performance. While the previous study was done in Brazil thereby creating a research gap; therefore, this present study was conducted in Kenya.

2.3.2 Differentiation Strategy and Performance

Nuru (2015) assessed a study to investigate whether differentiation strategy directly or indirectly influences performance. The study made use of licensed water bottling firms in Mombasa County, Kenya as the target population. Cross sectional research design was utilized as the study made use of both primary and secondary data. The primary data was obtained through semi structured questionnaires and scheduled interviews while the secondary data was gathered through reports and documents review. Logistic regression analysis, correlation analysis and descriptive statistics were used for analysis which showed that differentiation strategy significantly influences performance. Thus, the aforementioned study utilized cross sectional research design while this present study utilized descriptive research design.

Gorondutse *et al.* (2017) examined the impact of Differentiation Strategy on Performance of Hotels and the role of environmental munificence moderation. The study adopted quantitative research technique; the study targeted 83 hotels in Kano, Nigeria. Through census sampling technique, the whole 83 hotels were sampled. Partial least squares structural equation modeling was utilized while descriptive statistics and Pearson correlation analysis was made use of to assess the primary data. The results of the analysis showed that environmental munificence acts as a moderator in the relationship between differentiation strategy and performance. However, the previous study incorporated a moderating variable while for this current study a moderating variable was not incorporated.

Islami, Latkovikj, Drakulevski and Popovska (2020) examined the impact differentiation strategy has on organizational performance. The study employed empirical analysis; 123 manufacturing firms was sampled as structured questionnaires were distributed to gather primary data needed for the study which was analyzed using structural equation modeling. Correlation analysis was employed in assessing the connection between the independent and dependent variables. The results of the study revealed that differentiation strategy has a positive effect on organizational performance. The previous study was centered on organizational performance while the target population was manufacturing firms which are a research gap. This present study addressed the research gap by being centered on performance in which microfinance banks in Kenya were the target population.

2.3.3 Cost Leadership Strategy and Performance

Josiah *et al.* (2015) carried out research to examine the impact of cost leadership strategy on the profitability of liquefied gas firms in Eldoret Town, Kenya. The study

utilized survey research method as it targets 175 employees of the liquefied gas companies. The study made use stratified sampling method; 64 employees were chosen as respondents. Due to the use of primary data by the researcher, questionnaire and interview was used to gather data. The data analysis was performed using descriptive statistics method and correlation analysis. From the results of the findings, it was gathered that cost leadership strategy has a positively substantial impact and relationship with the profitability of the liquefied gas companies. The results of the aforementioned study are particular to liquefied gas firms and might not be applicable to other companies in various sectors. Thus, this current study determined the relationship between cost leadership strategy on the performance of microfinance banks in Kenya.

Wairimu *et al.* (2020) examined the effect of cost leadership strategy on the performance of tea processing plants in Murang'a County, Kenya. Performance was analyzed in terms of organizational performance and resource performance. Descriptive research design was the preferred research method used by the researchers, the population targeted therein was 9 tea processing plants in Murang'a County, Kenya while through stratified random sampling method, a sample size of 407 managers and support staff were sampled. Analysis was done using descriptive statistics in which reported that cost leadership strategy has a positively significant impact on the performance of the tea factories. The previous study measured performance considering the organizational and resource performance while this current study measured performance in terms of market share, profitability and customer satisfaction.

Ngugi *et al.* (2020) in their study determined whether or not cost leadership strategy has an effect on organizational performance by using insurance companies in Nyeri County using Kenya as a case study. The research methodology constituted of a target population of 25 insurance companies in Nyeri County sampled through census sampling method, and through purposive sampling method, the respondents consisted of branch managers, marketing managers, finance managers and claim managers. Secondary data utilized was obtained through the use of a document review guide to review the insurance companies' financial statements and financial reports within the time frame of 2014 to 2018. In addition, primary data was also utilized which was collected through the use of questionnaire. Analysis of the primary and secondary data was carried out with the use of inferential analysis and descriptive statistics. The results proved that cost leadership strategy has a strong positive influence on their performance. However, the previous study utilized both primary and secondary data while this present study adopted the use of only primary data.

2.4 Summary of Literature Review and Research Gaps

Table 2.1: Summary of Literature Review and Research Gaps

Researcher/Year	Purpose of the Study	Key Findings	Research Gaps	Addressing Research Gaps
Waititu (2014)	Investigated how customer centric strategy influences the profitability of commercial banks in Kenya	Customer centric strategy impacts the profitability of the commercial banks positively.	Commercial banks were targeted in Kenya	The present study targeted microfinance banks in Kenya
Nuru (2015).	Conducted a study to investigate whether differentiation strategy directly or indirectly influences performance	Differentiation strategy positively directly influences performance	Cross-sectional research design was utilized by the study	The current study utilized descriptive research design
Gorondutse <i>et al.</i> (2017)	Examined the influence of Differentiation Strategy on Performance of Hotels and the moderating role of environmental munificence	Environmental munificence acts as a moderator in the relationship between differentiation strategy and performance	Presence of a moderating variable	Absence of a moderating variable in the present study
Ngugi <i>et al.</i> (2020)	Determined whether or not cost leadership strategy has an influence on organizational performance by using insurance companies in Nyeri County,	Cost leadership strategy has a strong impact on their performance positively	The study utilized insurance companies as the target population	Deposit taking microfinance banks in Nairobi, Kenya was the target population for this study

	Kenya as a case study.			
Wairimu <i>et al.</i> (2020)	Examined the effect of cost leadership strategy on the profitability of tea processing plants in Murang'a County, Kenya.	Cost leadership strategy exerts a positive significant impact on the profitability of the tea plants	Performance was measured in terms of organizational and resource performance	Performance was measured in this present study as profitability, market share and customer satisfaction
Santos, <i>et al.</i> (2020).	Investigated on whether or not customer orientation has an effect on financial performance	Customer orientation has a significant influence on financial performance.	The study took place in Brazil	The present study took place in Kenya

2.5 Conceptual Framework

The study conceptual framework presents the linkage existing between the variables (Performance, customer focus strategy, differentiation and cost leadership). Competitive strategies are proposed to influence the performance of Micro Finance Banks.

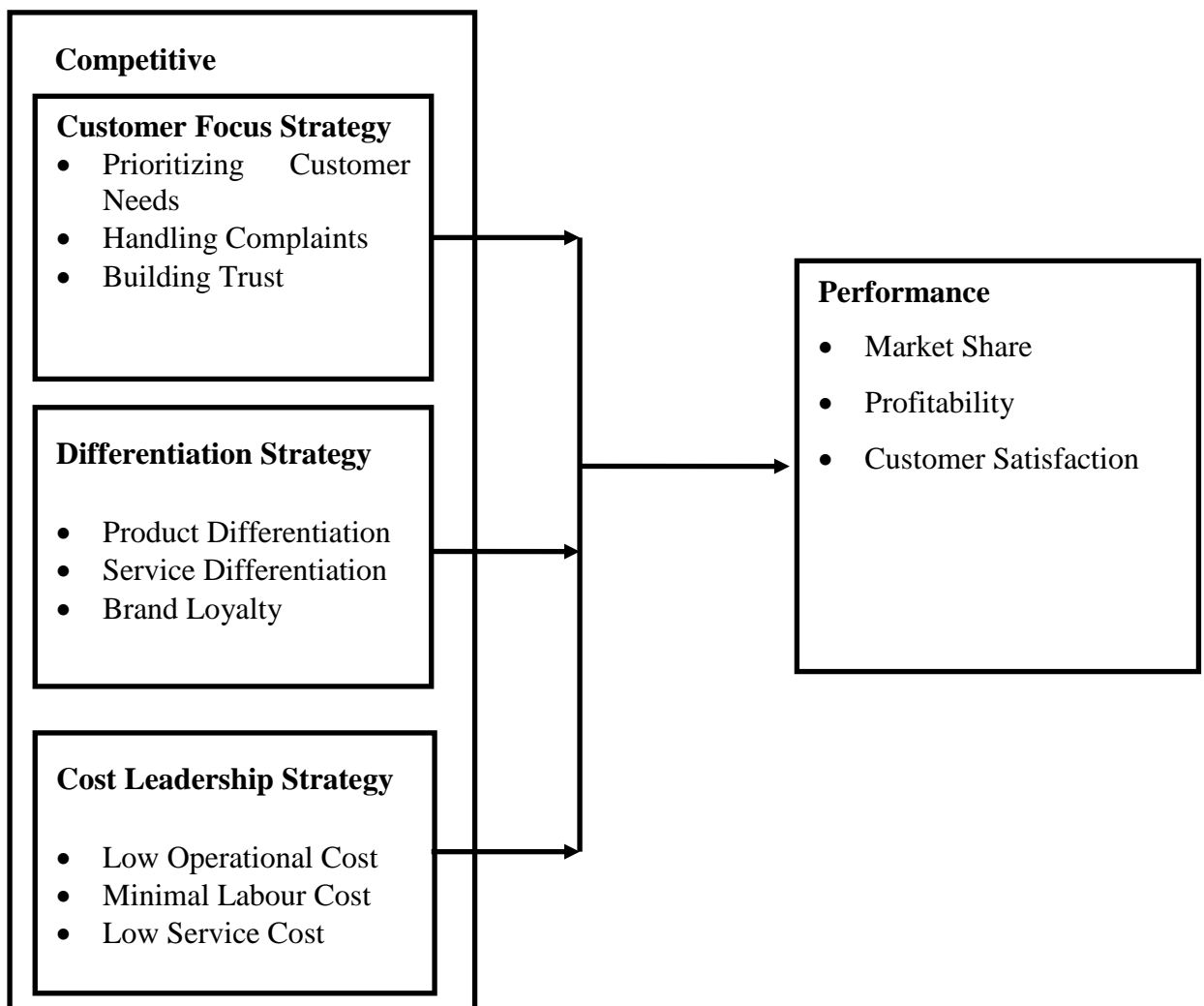


Figure 2.1: Conceptual Framework

Source: Researcher (2022)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter comprises of the details regarding the proposed methodology of the study. It provides the required information on the research population, empirical model, research design, sampling design method, instrument for collection of data and data analysis of the study.

3.2 Research Design

The study employed descriptive research design method in determining the effect of competitive strategies on the performance of microfinance banks in Kenya which is because Cooper & Schindler (2009) suggested that descriptive research design is the plan for gathering, measuring, and analyzing the data utilized in the research based on the what, when and where of the research questions. Also, Mugenda and Mugenda (2013) stated that a distinctive importance in utilizing descriptive research design since it brings out the demographic nature of the element or phenomenon. The reason for selecting descriptive research design is due to the thrust of this research which is evaluating the competitive advantage and performance nexus with respect to MFBs in Kenya.

3.3 Target Population

The 13 microfinance banks in Kenya were the focus of this study while their finance managers and assistants, marketing managers and assistants and operations manager and assistants constituted the population of the study targeted. According to Cooper and Schindler (2013), a study population is defined as a total group of elements that a

researcher seeks to investigate (Cooper & Schindler, 2013). The 13 MFBs constitute the unit of analysis while the respondents make up the unit of observation.

Table 3.1: Target Population

Respondent categories	Target population	Percentage (%)
Finance Managers and assistant	26	33.3
Marketing Managers and assistant	26	33.3
Operations Managers and assistant	26	33.3
Total	78	100.0

Source: Human Resource Records (2022)

3.4 Sampling Design

The study adopted purposive sampling design method regarding the fact that it focused on all the 13 registered MFB in Nairobi City County, Kenya. Mugenda and Mugenda (2011) opined that a census sampling design method is employed in research where population is relatively little or cases when the researcher deems it fit to do so. Furthermore, the probability of type II and type I errors are removed in studies based on census (Kothari, 2011). Therefore, the sample size consisted of 78 finance managers and assistants, marketing managers and assistants and operation managers and assistants.

3.5 Data Collection Instruments

The Primary data used for the research was gathered through the use of questionnaires. Questionnaire being the research instrument solely comprised of closed ended questions. The decision to use a questionnaire as the research tool is

based on the idea that they are less expensive than individual interviews. Additionally, using questionnaires for analysis is simple. Furthermore, the choice of questionnaires as the research instrument is considered due to the fact that a lot of people are conversant with questionnaires as it is the way of gathering data that is most frequently utilized in research. Partiality is reduced through the use of questionnaires as it brings about uniformity. The notion that questionnaires are least invasive than telephone or one-on-one surveys also had an influence on the type of questionnaire utilized in this study. The researcher uses a closed-ended questionnaire in this investigation. Closed questionnaire gives room for uniformity in answering the questions by giving room for the respondents to willingly provide their personal and unbiased opinions.

3.6 Validity and Reliability of Research Instruments

During the course of the study, the researcher ensured that the validity and reliability of the research instruments are gotten and ascertained before data collection and drawing of conclusions.

3.6.1 Validity of Research Instruments

Validity can be defined as the accuracy of measurement. Validity measures the accuracy of the research instruments which is the questionnaire in this case. The questionnaire was adequately structured and tested prior to the research study to be sure that the research findings are accurate and valid. Construct validity is ensured through the means of reviewing literatures which are related to competitive strategies and performance. To ensure the validity of the questionnaire contents, the questionnaire is given to experts in research and as well to the supervisor to check for errors which were corrected before administrating the questionnaire.

3.6.2 Reliability of Research Instruments

A test is reliable when it consistently measures what it is intended to measure. This occurs when the test yield same results over repeated attempts. The consistency of a study measurement and the degree to which a tool evaluates and yields identical results every occasion it is utilized under the same circumstances and in addition with the identical concept in the process are both examples of reliability. Therefore, it is termed the repeatability of a research measurement. Cronbach-Alpha measure of internal consistency was employed in the determination of the internal consistency of the questionnaire and a coefficient value of 70% was accepted.

3.6.3 Reliability Analysis

The study instrument's reliability was assessed using Cronbach's Alpha, which has a coefficient range of 0 to 1.00. Table 3.2 presents the findings of the inquiry, with a coefficient of 0.7 or higher.

Table 3.1: Reliability Analysis

Variable	Cronbach's Alpha Score	Comment
Performance	.832	Reliable
Customer Focus Strategy	.764	Reliable
Differentiation Strategy	.735	Reliable
Cost Leadership Strategy	.812	Reliable
Overall Instrument Score	.786	Reliable

Source: Study Data (2022)

Competitive strategies such as customer focus strategy, differentiation strategy, cost leadership strategy as well as Microfinance banks' performance in Nairobi City County, Kenya all exhibited According to Table 4.2, the alpha values were 0.832, 0.764, 0.735, and 0.812, respectively. The total instrument score of 0.786, which indicates that the tool employed in the study adequately measured the research construct, shows that the variables used in the inquiry had reliability coefficients exceeding 0.7 (Rousson, Gasser & Seifer, 2012).

3.8 Research Ethics

Research ethics can be referred to as the procedures and norms that are noticeable in a study (Mugenda & Mugenda, 2011). It refers to the care and handling of parties involved in a research study. the Researcher shall abide by ethical standards when doing research at Kenyatta University and in Kenya. These assessments cover avoiding deception, plagiarism, and falsity, among other things. Similarly, authors whose work(s) have been used in the study were duly acknowledged. Also, respondents and their responses were kept confidential.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This section presents the study's findings. Both descriptive and inferential analysis of the research data was performed. The results are presented based on the study objectives in light of the findings.

4.1.1 Response Rate

Table 4.1 provides the results of the response and non-response rates of the respondents selected from the Microfinance banks in order to calculate the respondents' response rates.

Table 4.1: Response Rate

Rates	Frequency	Percent
Response	66	84.7%
Non-Response	12	15.3%
Total	78	100

Source: Study Data (2022)

The study's response and non-response rates were, respectively, 84.7% and 15.3 percent. Schindler and Cooper (2009) recommended that a threshold of 50% and above is regarded as appropriate for survey research for determining a good level of response rate. The study's findings showed a response rate of 84.7 percent, which is high and adequate for the study's analysis.

4.2 Demographic Information

This section contains a list of the respondents' demographic data. The respondents' gender, age, educational qualifications, and years of work were discussed in this section.

4.2.1 Gender of the Respondents

This section provided the gender distribution of the respondents. Figure 4.1 show the number and percentage of male and female responders in the study area.

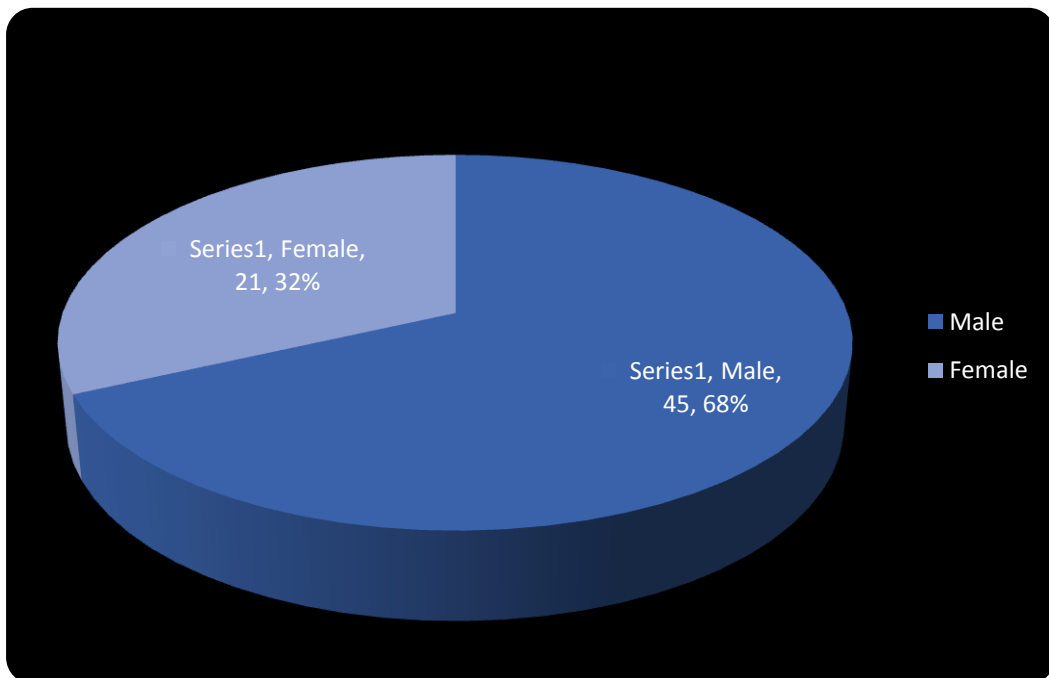


Figure 4.1: Gender Distribution of the Respondents

Source: Study Data (2022)

The distribution of the respondents based on gender in Figure 4.1 showed that both males and females were represented in the sample, with male respondents constituting 68% (45) and females 32% (21) respectively. The predominance of male respondents over female folks could be linked to the fact that female respondents are preoccupied

with other house chores which could prove difficult for their career development in the banking sector in Nairobi City County, Kenya.

4.2.2 Age Distribution

The age distribution of the respondents was equally assessed to determine the caliber of the respondents involved in the study. The information presented on the age of the respondents is presented in Table 4.3.

Table 4.2: Age Distribution of the Respondents

Age	Frequency	Percentage
18-30 years	5	7.6
31-40 years	34	51.5
41-50 years	14	21.2
51-60 years	13	19.7
Total	66	100

Source: Study Data (2022)

Based on the outcome in Table 4.3, only 5 (7.6%) of the respondents fall within the age bracket of 18-30 years with 34 (51.5%) falling within the age range of 31-40 years. Additionally, the 41 to 50 age bracket has 14 (21.2%) respondents out of the total research sample. In the same vein, the 51-60 years range has 13 (19.7%) respondents. However, the distribution of the respondents showed that the majority of the respondents fall within the age group of 31 to 40 years. Therefore, the age distribution of the respondents signifies that the majority of the managers are young and agile and can participate actively in the duties so attached.

4.2.2 Level of Educational Qualification

The level of educational qualification of the respondents was ascertained by the researcher. The responses obtained are presented in Table 4.4.

Table 4.3: Distribution of Respondents' Educational Level

Educational Qualification	Frequency	Percentage
Diploma	12	18.2
Bachelor's Degree	29	43.9
Masters	15	22.7
PHD	10	15.2
Total	66	100

Source: Study Data (2022)

Table 4.4 presented the distribution of the respondents based on their highest educational level. The result showed that 12 (18.2%) of the managers and assistants had diploma qualifications, 29 (43.9%) had bachelor's degree qualifications, 15 (22.7%) had master's degrees, and 10 (15.2%) of the interviewees had Ph.D. qualifications. The managers as posited by results of the study showed that the majority of the managers and their assistants possessed bachelor's degrees with only 12 of the respondents having educational qualifications below such. The outcome of the study provided showed that the managers and their assistants have sufficient knowledge about their job responsibilities, hence matching same with their educational knowledge for optimum performance of the microfinance banks in Nairobi City County, Kenya.

4.2.3 Number of Working Years

The number of years that the respondents have put into the microfinance banks was determined by the researcher. In this regard, the frequencies and percentage is evaluated and presented in Table 4.5.

Table 4.4: Work Experience of the Respondent

Years	Frequency	Percentage
< 10 years	14	21.2
11 – 20 years	32	48.5
Over 20 years	20	30.3
Total	66	100

Source: Study Data (2022)

The number of years that the managers and assistants have been working in the microfinance banks is depicted in Table 4.5. This indicated that a total of 14 respondents representing 21.2% have worked in microfinance banks for less than 10 years. Thirty-two (32) of the total respondents which have 48.5% have worked for between 11 and 20 years in microfinance banks in Nairobi, City County, Kenya. In furtherance, 20 of the managers and assistants have over 20 years of working experience with the microfinance banks in Nairobi City County, Kenya. The conclusion from this outcome shows that majority of the managers and assistants have spent between 11 and 20 years working in the microfinance banks in Nairobi City County, Kenya. This shows their level of experience and expertise in the discharge of their duties for the maximum performance of the banks.

4.3 Descriptive Analysis

In this section, the study's variables were analyzed and reported in a descriptive manner. The sub-sections sequentially provided each study variable in a descriptive

manner. The intensity of the respondents' statements with regard to the questionnaire items was evaluated using a five-point Likert scaled structured questionnaire (Strongly agree=1, Agree=2, Neutral=3, Disagree=4, and Strongly Disagree=5). While the composite mean and standard deviation were used to decide whether to accept or reject the research variable in contrast to prior findings on the study subject, mean and standard deviation were utilized to determine whether the claim should be accepted or rejected.

4.3.1 Customer Focus Strategy

Descriptive statistics on customer focus strategy were presented in this segment. Statements relative to the focus of customer strategy were reported in this segment of the study. The managers and assistants responded according and the results presented in Table 4.6.

Table 4.5: Descriptive Statistics on Customer Focus Strategy

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

Source: Study Data (2022)

The result indicated an average mean and standard deviation of 3.6667 and 1.05733 implying that the managers and assistants agreed with the statement that prioritizing customer needs improves performance in the microfinance banks in Nairobi City County, Kenya. The statement that customer focus strategy improves performance in the banks was agreed by the respondents owing to the mean and standard deviation of 4.0455 and 0.6664 respectively. In addition, effectively handling customers' complaints helps enhance customer satisfaction in the banks. This statement was validated by the responses of the respondents based on the mean and standard deviation of 4.00 and 0.5262. The claim that building customer trust improves the performance of microfinance banks was agreed upon by the mean response of 4.0303 and a deviation from the standard mean of 0.6317. The Prioritization of customer needs to improve market share was agreed upon by the respondents. These responses are validated by the mean and standard deviation values of 4.1364 and the standard deviation of 0.6768. Judging by the composite mean and standard deviation of 3.9758 and 0.7117, the customer focus strategy significantly influences the microfinance banks' performance in Nairobi City County, Kenya.

The replies, which are consistent with Kavulya, Muturi, Rotich, and Ogollah (2018), show the degree to which Sacco's performance is affected by various customer focus strategies. Any firm wishing to achieve a level of sustained performance must adopt customer attention, according to experts (Mokhtar, 2013). In order to achieve sustainable performance, a company must be able to respond quickly and effectively to new customer-related problems, which may include the need to alter how certain processes are carried out (Yaacob, 2014).

4.3.2 Differentiation Strategy

Differentiation strategy as posited by the descriptive response of the respondents is discussed in this section. The descriptive statistics were reported based on the strength of the means and standard deviation in the study area. The outcome of the study is presented in Table 4.7.

Table 4.6: Descriptive Statistics on Differentiation Strategy

Statement	N	Percentage					Mean	Std. Deviation
		1	2	3	4	5		
Product differentiation helps improve performance	66	0.0	1.5	7.6	68.2	22.7	4.1212	.5952
Service differentiation enhances market share	66	1.5	1.5	16.7	62.1	18.2	3.9394	.7417
Brand loyalty improves performance	66	1.5	0.0	25.8	47.0	25.8	3.9545	.8121
Product differentiation improves profitability	66	0.0	0.0	4.5	68.2	27.3	4.2273	.5202
Service differentiation improves customer satisfaction	66	0.0	0.0	13.6	63.6	22.7	4.0909	.6007
Average Score	66						4.0667	0.6540

Source: Study Data (2022)

Differentiation strategy responses were reported in Table 4.7. The statement that product differentiation helps improve performance was agreed upon by the interviewees as shown by the mean and standard deviation values of 4.1212 and

0.5952 respectively. Additionally, service differentiation enhances market share was agreed by the respondents as demonstrated by the mean value of 3.9394 and standard deviation of 0.7417. The interviewees agreed that Brand loyalty improves performance in the banks as indicated by a 3.9545 mean value and 0.8121 standard deviations. The outcomes demonstrated that product differentiation improves profitability as agreed by the majority of the respondents. This was affirmed by a mean and standard deviation value of 4.2273 and 0.5202 while it was also agreed that Service differentiation improves customer satisfaction as captured by the values of mean and standard deviation of 4.0909 and 0.6007 respectively. Therefore, the composite means which keeps a count of 4.0667 with a standard deviation of 0.6540 advanced the respondents' conformity in their reactions to the statement on differentiation strategy and the performance of microfinance banks in Nairobi City County, Kenya

According to research by Gorondutse and Hilman (2017), a differentiation strategy's positively correlated with performance. As a result, a strategy of differentiation is typically built around firm- and product-specific creativity and marketing efforts that are either challenging or simple to quickly copy. Gorondutse and Hilman (2017) highlight Porter's differentiation strategy as giving businesses the opportunity to claim the best price in addition to retaining a larger market share or becoming the market leader.

4.3.3 Cost Leadership Strategy

Data was gathered on the cost leadership strategy of the microfinance banks and the same were descriptively analyzed. The results presented by the data are reported in Table 4.8.

Table 4.7: Descriptive Statistics on Cost Leadership Strategy

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

Source: Study Data (2022)

Low operational cost enhances performance was agreed by the respondents at the microfinance banks as indicated by the mean value of 4.00 and standard deviation of 0.6076. There was a strong agreement with respect to the statement that minimal labour cost enhances performance as illustrated by a mean of 4.1818 and a standard deviation of 0.4933. With regard to whether low service cost enhances performance, the respondents agreed as indicated by 4.1870 and 0.7690 mean average and standard deviation. With respect to whether low operational cost improves profitability, the respondents concurred with the statement and this is illustrated by the mean and standard deviation of 4.2273 and 0.5202 respectively. More so, it was indicated that the respondents agreed that low service cost improves market share as validated by

the mean value of 4.00 and standard deviation of 0.6794. The interviewees compositely are in harmony with the various statements on cost leadership strategy in the microfinance banks as illustrated by 4.1192 mean average and 0.6139 deviation values.

The study is consistent with Gorondutsea and Gawunab (2017) who noted that generic strategy stresses utilizing the business level strategy of cost leadership perhaps to assist organizations to obtain a competitive advantage, giving firms protection alongside their competitors. Cost leadership suggests that the company can continue to operate profitably, but at the same time, it also raises the possibility that its competitors may collapse behind the profit barrier (Barjandi *et al.*, 2014; Valipour *et al.*, 2012).

4.3.4 Performance

Descriptive statistics were conducted with regard to the performance of microfinance banks. Table 4.9 reported the outcome of the analysis as it pertains to the performance of microfinance banks in Nairobi City County, Kenya.

Table 4.8: Descriptive Statistics on Performance

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

Source: Study Data (2022)

As demonstrated in Table 4.9, the interviewees agreed that the market share increased after implementing competitive strategies. This was shown by 4.1818 and 0.5236 mean and standard deviation respectively. Higher profitability was recorded after implementing competitive strategies as postulated by an average mean score of 4.1667 and standard deviation of 0.9701, which implies a great degree of agreement from the respondents. Notably, it was observed that Customer satisfaction increased after implementing competitive strategies as affirmed by mean and standard deviation values of 4.1970 and 0.8982 respectively. As indicated by a mean value of 4.1515 and

standard deviation of 1.0988, microfinance performance has increased over the years as agreed by the respondents. The confirmation of the respondents' responses to performance was further demonstrated by the composite mean value of 4.1743 and standard deviation of 0.8727.

4.4. Inferential Analysis

Inferential statistics and various regression frameworks were applied to draw conclusions about the research problem. The evaluation was completed in compliance with the stated objectives and research question.

4.4.1 Correlation Analysis

In this section of the study, the correlation analysis findings are reported. Table 4.10 summarizes the research's conclusions as a result.

Table 4.9: Correlation Results

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

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

Source: Study Data (2022)

The correlation analysis of the variables utilized in the study was shown in Table 4.10. The study's findings revealed that customer focus strategy has a positive and

significant association with the performance of microfinance banks. Differentiation strategy possesses a positive and significant correlation with the performance of microfinance banks. Furthermore, cost leadership strategy has a positive and significant correlation with microfinance banks in Nairobi City County, Kenya. The evidence from the result of the study indicated that all the explanatory variables employed in the study have a positive and significant correlations with the performance of microfinance banks in Nairobi City County, Kenya.

4.4.2 Model Summary

The summary of the regression model is indicated in Table 4.11 depicting the values of R, the R-square, and R-square adjusted.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square
1	.763 ^a	.639	.613

Source: Study Data (2022)

The value of R indicated that competitive strategy has a high degree of association with the performance of microfinance banks to the tune of 0.763. With regard to this association, the coefficient of determination showed that competitive strategy (customer focus strategy, differentiation strategy, and cost leadership strategy) significantly change the performance of microfinance banks by 63.9% when any of the explanatory variables change by a percentage. Taking into account the manner in which the performance of the microfinance banks changes, it is explained to the tune of 61.3% if any of the regressors changes by a unit. Due to the high degree and the explanatory power of the model as indicated by the R-square, only 36.1% of changes

in the performance of microfinance banks in Nairobi City County, Kenya is not accounted for, by the explanatory variables.

4.4.3 Analysis of Variance

The model significance was determined using an analysis of variance. This shows how important the model is used to predict any changes in the explained variables as indicated in Table 4.12.

Table 4.11: Analysis of Variance

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

Source: Study Data (2022)

Analysis of variance outcomes as indicated in Table 4.12 showed the combined significance of the explanatory powers on the explained variable. An F value of 13.615 was shown which was accompanied by a p-value of 0.000. Going by this result, competitive strategy (customer focus strategy, differentiation strategy, and cost leadership strategy) significantly affected the performance of microfinance banks in Nairobi City County, Kenya. Therefore, the joined significance of the explanatory variables was validated by the outcomes.

4.4.4. Multiple Regression Analysis

To ascertain the marginal effect of independent variables on the dependent variable, multiple regression analysis was utilized. The findings of the regression analysis are presented in Table 4.13.

Table 4.12: Regression Results

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

Source: Study Data (2022)

$$\text{Perf} = -1.161 - 0.115X_1 + 0.447X_2 + 1.087X_3 + \varepsilon$$

Where:

Perf = Performance

CFS = Customer Focus Strategy

DS = Differentiation Strategy

CLS = Cost Leadership Strategy

4.5 Interpretation of Findings

As stated in Table 4.13, the investigation's findings showed how each explanatory factor affected the performance of the microfinance banks in Nairobi City County. It was done using the standardized beta values, which show how much each explanatory factor contributed to the dependent variable. The coefficient of the constant is -1.161, which is statistically significant given the probability value of 0.000. This implies that

the performance of the microfinance banks in Nairobi City County would be poor without the various competitive strategy components.

According to the findings, customer focus strategy has a negative ($\beta = -0.060$) and statistically insignificant (p -value = 0.647) effect on the performance of the microfinance banks in Nairobi City County. This signifies that an increase in the percentage of customer focus strategy would result in a decrease of 0.060 percent in the performance of microfinance banks. The outcome could be attributed to the huge amount of resources injected into the microfinance banks' market center approach which in most cases could not yield higher benefits to the banks but, instead leads to losses on the side of the banks. However, the study is inconsistent with the study of Waititu (2014) revealed that A customer-centric approach has a favorable impact on how well commercial banks function. Mohiuddin (2018) established that a firm's customer orientation significantly affects its performance. Santos *et al.* (2020) proved that customer orientation has a significant effect on financial performance. The differences in the findings of the study could be attributed to the different contextual frameworks upon which the studies were conducted.

Differentiation strategy has a positive ($\beta=0.272$) but statistically insignificant (p -value = 0.051) effect on Nairobi City County's performance of microfinance banks. It is expected that the differentiation strategy adopted by the bank add up to the performance of the microfinance banks. In view of this, an enhancement of the performance of the microfinance banks by 0.272 is attributed to a percentage increase in the differentiation strategy. Despite the positive contribution of the differentiation strategy, it is insignificant to the performance of the microfinance banks in the County of Nairobi City, Kenya. The outcome of this study could be linked to the intense or

keen competition in the banking industry which makes the contribution of such strategy infinitesimally on the performance of the microfinance banks. The study is consistent Islami, Latkovikj, Drakulevski, and Popovska (2020) revealed that differentiation strategy has a positive effect on organizational performance Nuru (2015) showed that differentiation strategy significantly influences performance. Gorondutse *et al.* (2017) results analysis showed that environmental munificence acts as a moderator in the relationship between differentiation strategy and performance.

In addition, the cost leadership strategy has a positive ($\beta=0.482$) and significant (p -value = 0.000) effect on the County of Nairobi City's microfinance banks performance. This means that the cost leadership strategy employed by the banks results in high predictability of the banks' performance in Nairobi City County, Kenya. By this, the performance improves by 0.482 percent as a result of an increase in the cost leadership strategy in the County City of Nairobi. The result of the research could be accredited to the strategy implemented by the banks in the quest to cut down the cost of leadership using advanced technological know-how. The study is consistent with what Josiah *et al.* (2015) gathered that cost leadership strategy has a positively substantial impact and relationship with the profitability of the liquefied gas companies. Wairimu *et al.* (2020) reported that cost leadership strategy has a positive significant impact on the performance of tea factories. Ngugi *et al.* (2020) proved that cost leadership strategy has a strong positive influence on their performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study's summary, conclusion, and recommendations were presented in this section. This section also includes recommendations for future investigations and knowledge contributions. The aforementioned is done in accordance with the study's specific aims and conclusions.

5.2 Summary of Findings

The goal of the study was to see how competitive strategies affected the performance of microfinance banks in Nairobi City County, Kenya. Particularly, the effect of customer focus strategy, differentiation strategy and cost Leadership strategy on the County of Nairobi City microfinance banks' performance was determined. The approach of correlation and multiple regression was employed to analyze the data generated from the field and the summary of the major findings followed suit.

The outcome of correlation in view of the first objective noted positive and significant associations of customer focus strategy with the performance of microfinance banks in Nairobi City County, Kenya. Linearly as suggested by the outcome of the multiple regression, customer focus strategy predicted the performance of microfinance banks negatively in an insignificant manner. This implies that the performance of the banks declines as the customer-focus strategy is adopted by the banks.

As noted by the outcome of correlation analysis with respect to the second objective, differentiation strategy has a direct positive link with the Nairobi City County's microfinance banks' performance. The outcome as marked by the regression

technique showed that the differentiation strategy predicted the performance of microfinance banks in Nairobi City County in an insignificant way but positive. This implies that the performance of microfinance banks increases as differentiation strategy is adopted.

The third objective of the study as depicted by the correction technique illustrated that cost leadership strategy correlate positively in a manner that is significant with the performance of microfinance banks in Nairobi City County, Kenya. Linearity of the regression technique posited a positive and significant effect of cost leadership strategy on the performance of microfinance banks in Nairobi City County, Kenya. The performance of microfinance banks has a high predictive ability resulting from the cost leadership strategy.

5.3 Conclusion of the Study

Customer focus strategy, differentiation strategy as well as cost leadership strategy as proxies of competitive strategies was used to determine their individual effect on the performance of microfinance banks in Nairobi City County, Kenya. Based on the findings of the study, the records showed that customer focus strategy negatively and insignificantly determined the performance of microfinance banks in Nairobi City County, Kenya. The study's findings suggest that a customer-focused strategy has a negative impact on the performance of the banks in the study area, consequently impeding their overall efficiency.

With particular reference to the second objective of the study, differentiation strategy revealed a direct positive effect, yet insignificant on the performance of microfinance banks in Nairobi City County, Kenya. In line with the findings in the second

objective, the differentiation strategy has not been able to impact the needed influence on the performance of the microfinance banks in the study area. Although positive contributions are recorded, it was not significant to change the course of the performance of the microfinance banks.

The conclusion was made from the third objective of the study which noted that cost leadership strategy from the result has a positive and significant effect on Nairobi City County's microfinance performance in Kenya. In this regard, the cost leadership strategy adopted by the microfinance banks has high predictability on the performance of the microfinance banks in Nairobi City County, Kenya; hence, the strategy has yielded the needed benefit to the microfinance banks.

5.4 Recommendations for Policy and Practice

Suggestions are made based on the outcomes of the study. This means that the outcomes, which portray the direction and significance of the effect of the competitive strategies (customer focus strategy, differentiation strategy as well as cost leadership strategy) on the performance of microfinance, banks in Nairobi City County, Kenya. Accordingly, customer focus strategy insignificantly affected the performance of microfinance banks in Nairobi City County, Kenya. Based on this outcome, the study suggests that the management of the banks should conduct a customer screening to determine the best needs of the customers to enable the banks to focus on the strategy that best accommodates these needs for maximum performance of the banks.

Differentiation strategy had an insignificant effect on the performance of the microfinance banks of Nairobi City County. To this end, the management of the microfinance banks should ensure optimal utilization of the best differentiation

strategy be it product or price differential strategy. This is to ensure that the customers are comfortable with the strategy adopted by the banks and thus, address the particular needs of the customers in Nairobi City County.

The outcome of the study regarding cost leadership strategy showed a positive and significant effect on the performance of microfinance banks in Nairobi City County, Kenya. Going by the result of the study, the management of the banks is recommended to increase or further enhance the cost leadership strategy to increase the performance of the banks.

5.5 Contribution to Knowledge

The study adds to the body of knowledge on the effect of competitive strategies on the performance of microfinance banks in various ways. Evidently, the study indicated that there is a linkage between competitive strategies and the performance of microfinance banks in Nairobi City County, Kenya. Additionally, the study adds to the development of policy and practice of microfinance banks in Nairobi City County by accentuating the relevance of the balanced scorecard model, porter's generic competitive strategies theory, and dynamic capabilities theory within the context of the study.

The hypotheses of the study have been effectively tested using an empirical model to show the functionality of the explanatory variables on the dependent variables in the study location. This has assisted in identifying the variables that are significant and those that are insignificant to the performance of microfinance banks in Nairobi City County, Kenya.

5.6 Suggestions for Future Research

The study focused on competitive strategies and the performance of microfinance banks in Nairobi City County. Other research can be conducted to unravel why customer focus strategy is insignificant to the performance of microfinance banks in Nairobi City County, Kenya. Furthermore, other studies can be carried out to determine how effective competitive strategies are on the financial performance of commercial banks in Nairobi City County, Kenya.

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APPENDICES

Appendix I: Questionnaire

This questionnaire consists of two sections. The respondents were required to answer five questions in section one of the questionnaire on his/her background. All the items in sections two require responses ranging from strongly agree to strongly disagree. The respondent is expected to tick whichever is appropriate in his or her opinion.

SECTION 1: Background Information

1. Gender

Male ()

Female ()

2. Age bracket

18-30 years ()

31- 40 years ()

41- 50 years ()

51- 60 years ()

3. Highest educational level

Diploma ()

Bachelor's degree ()

Masters ()

PHD ()

5. Years of working in the bank

< 10 years ()

11- 20 years ()

Over 20 years ()

SECTION 2: COMPETITIVE STRATEGIES

CUSTOMER FOCUS STRATEGY

Based on your dispositions, please indicate the most appropriate opinion/response with the scale:

Key: 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree

Statement	1	2	3	4	5
Prioritizing customer needs improves performance					
Customer focus strategy improves performance					
Effectively handling customers complaints helps enhance customer satisfaction					
Building customers trust improves performance					

Prioritizing customer needs improve market share					
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DIFFERENTIATION STRATEGY

Statement	1	2	3	4	5
Product differentiation helps improve performance					
Service differentiation enhances market share					
Brand loyalty improves performance					
Product differentiation improves profitability					
Service differentiation improves customer satisfaction					

COST LEADERSHIP STRATEGY

Statement	1	2	3	4	5
Low operational cost enhances performance					
Minimal labour cost enhances performance					
Low service cost enhances performance					
Low operational cost improves profitability					
Low service cost improves market share					

PERFORMANCE

Statement	1	2	3	4	5
The market share increased after implementing competitive strategies					

Higher profitability was recorded after implementing competitive strategies					
Customer satisfaction increased after implementing competitive strategies.					
The microfinance performance has increased over the years					

Appendix II: List of Licensed Deposit Taking Microfinance Banks

Choice	Microfinance	Bank	Limited
Postal Address:	P. O. Box 18263 – 00100,	Nairobi	
Telephone:	+254-20-3882206,	20-3882207,	0736662218
Email:	info@choicemfb.com ,	enquiries@choicemfb.com	
Website:	www.choicemfb.com		
Physical Address:	Siron Place, Magadi Road, Ongata Rongai		
Date	Licenced: 13th	May	2015
Branches: 1			
Faulu	Microfinance	Bank	Ltd
Postal Address:	P. O. Box 60240 – 00200,	Nairobi	
Telephone:	+254-20- 3877290	-3/7,	38721883/4
Fax:	+254-20-3867504, 3872183/4; 3867503, 0711 074 074, 0708		
	111		000
Email:	info@faulukenya.com ,	customercare@faulukenya.com	
Website:	www.faulukenya.com		
Physical Address:	Faulu Kenya House, Ngong Lane -Off Ngong Road		
Date	Licenced: 21st	May	2009
Branches: 32			
Kenya	Women	Microfinance	Bank
Ltd			
Postal Address:	P. O. Box 4179-00506,	Nairobi	
Telephone:	+254-20- 2470272-5,	2715334/5,	2755340/42

Pilot	Line:	070	-	3067000
Email:	info@kwftdtm.com			
Website:	www.kwftdtm.com			
Physical Address: Akira House, Kiambere Road, Upper Hill,				
Date	Licenced:	31st	March	2010
Branches: 29				
SMEP	Microfinance	Bank	Ltd	
Postal	Address:	P. O. Box	64063-00620	Nairobi
Telephone:	020-3572799/2055761, 2673327/8, 0711606900			
Email:	info@smep.co.ke info@smep.co.ke info@smep.co.ke			
Website: www.smep.co.ke				
Physical Address: SMEP Building - Kirichwa Road, Off Argwings				
Kodhek				Road
Date	Licensed:	14th	December	2010
Branches: 7				
Remu	Microfinance	Bank	Ltd	
Postal	Address:	P. O. Box	20833-00100	Nairobi
Telephone:	2214483/2215384/ 2215387/8/9, 0733-554555			
Email:	info@remultd.co.ke info@remultd.co.ke info@remultd.co.ke			
Physical Address: Finance House, 14th Floor, Loita Street				
Date	Licensed:	31st	December	2010
Branches: 3				

Rafiki	Microfinance	Bank	Ltd
Postal	Address:	12755-00400	Nairobi
Telephone:	+254-020-2166401/0730	170 000/0730	170 500
Email:		info@rafiki.co.ke	
Website:		www.rafiki.co.ke	
Physical	Address:	: Rafiki House,	Biashara Street
Date	Licensed:	14th	June 2011
Branches: 17			
Uwezo	Microfinance	Bank	Ltd
Postal	Address:	1654-00100	Nairobi
Telephone:	2212919,	0703591302	/ 9
Email:		info@uwezodtm.com	
Website:		www.uwezodtm.com	
Physical	Address:	Rehani House, 11th floor,	Koinange Street
Date	Licensed:	08	November 2010
Branches: 2			
Century	Microfinance	Bank	Ltd
Postal	Address:	P. O. Box 38319 – 00623,	Nairobi
Telephone:	+254-20-2664282, 6768326, 0722168721, 0756305132		
Email:		info@century.co.ke	
Physical Address: KK Plaza 1 st Floor, New Pumwani Road, Gikomba			
Date	Licensed:	17th	September 2012

Branches: 1				
Sumac	Microfinance	Bank	Ltd	
Postal Address:	P. O. Box	11687-00100,	Nairobi	
Telephone:	020-2212587,	2210440,	2249047,	0738637245,
	0725223499			
Fax:	(254)			2210430
Email:				info@sumacdtm.co.ke
Website:				www.sumacdtm.co.ke
Physical Address: Consolidated Bank House 2 nd Floor, Koinange Street				
Date	Licensed:	29th	October	2012
Branches: 3				
U&I	Microfinance	Bank	Ltd	
Postal Address:	P.O. Box	15825 – 00100,	Nairobi	
Telephone:	(254) 020	2367288,	0713 112	791
Fax:	(254)			2210430
Email:				info@uni-microfinance.co.ke
Website:				http://uni-microfinance.co.ke/uni-microfinance/
Physical Address: Asili Complex Building 1 st Floor, River Road				
Date	Licensed:	8th	April	2013
Branches: 2				
Daraja	Microfinance	Bank	Ltd	

Postal Address: P.O. Box 100854 – 00101, Jamia, Nairobi
Telephone: 020-3879995 / 0733 988888/0707 444888 / 0718 444888
Email: daraja@darajabank.co.ke
Website: www.darajabank.co.ke
Physical Address: Karandini Road, off Naivasha Road
Date Licensed: 12th January 2015
Branches: 1
Caritas Microfinance Bank Ltd
Postal Address: P.O. Box 15352 - 00100, Nairobi, Kenya
Telephone: 020-5151500
Email: info@caritas-mfb.co.ke
Website: www.caritas-mfb.co.ke
Physical Address: Cardinal Maurice Otunga Plaza, Kaunda Street
Date Licensed: 2nd June 2015
Branches: 1
Maisha Microfinance Bank Limited
Postal Address: P.O. Box 49316 -00100, Nairobi, Kenya
Telephone: 0792 002 300/020 2220648
Email: info@maishabank.com
Website: www.maishabank.com
Physical Address: 2nd Floor, Chester House-Commercial Wing, Koinange Street
Date Licensed: 21st May 2016

Branches: 1

(Central Bank of Kenya, 2018)