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EFFECTS OF COMPETITIVE ADVANTAGE STRATEGIES ON PERFORMANCE OF MICRO-FINANCE INSTITUTIONS AT KENYA WOMEN MICRO-FINANCE BANK

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ABSTRACT

The study investigated the effects of competitive strategies on performance of Kenya Women Micro-Finance Bank in Mombasa. Descriptive research design was used to collect data from 34 employees working in the 4 branches in Mombasa. The regression analysis result indicated that focus strategy had the greatest predictive power of the bank's performance but innovation initiatives had the least predictive power. From these findings conclusions and recommendations were made; one; It was concluded that the bank did not have a clear generic competitive strategy; as such it was recommended that it adopts one strategy and sticks to it. Two; cost leading MFIs records positive performance as such cost cutting measures should be at the heart of all employees for performance conscious firms. Thirdly focus strategy was a powerful predictor of performance, hence prioritizing focus initiatives throughout the firm would enable the MFIs achieve good performance status. The effect of innovation on performance was positive, though not statistically significant. In this regard, it was concluded that innovative efforts adopted by the bank were not effectively producing differentiated products that appeals to customers nor produced services and products at optimal cost. Based on the market theory it was recommended that the bank should come up with innovative programs that considers both industry factors and external market orientation that are critical in producing innovative products and services that are effectively competitive. This will be critical in increasing market base and expansion of number of branches and customers thus creating the much needed jobs in the region. However because of limitations of the current study both in terms of scope and methodology, it was recommended that future studies should be undertaken that consider more similar financial institutions and larger sample sizes to enable the findings to be more representative. Again future studies should consider more variables apart from the competitive strategies considered in this study. This will result in a more comprehensive and practical model of MFIs performance in the region. Such a model will be more valuable and significant to both practitioners and academicians.

Key Terms: Competitive Strategies, Cost Leadership, Differentiation, Focused Strategy, Innovation, Strategic Focus

INTRODUCTION

Competitive advantage is what enables a business organization to thrive. It is the combination of elements in the business model which enables a business to better satisfy the needs in its environment, earning economic rents in the process. (Porter, 2008). It is the superior value creation with the firm's ability to sustain competitive advantage equivalent to its ability to sustain added value. (Barney, 2010) In the realm of strategy, there are roughly two views of the basic source of competitive advantage, the resource-based view and the positional view. The first sees the capabilities of the firm as its primary source of advantage while the latter contends that position within an industry is the source of advantage.

A firm has a sustained advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. A firm enjoying a sustained competitive advantage may experience these major shifts in the structure of competition, and may see its competitive advantage nullified by such changes. However, a sustained competitive advantage is not nullified through competing firms duplicating the benefits of that competitive advantage. (Burnley, 2014)

According to Ma (2014) to realize the potential of sustained competitive advantage, a firm resource must have the following attributes; it must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment, it must be rare among a firm's current and potential competition, it must be imperfectly imitable, there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare but neither rare or imperfectly imitable.

Microfinance institutions are the backbone of credit facilities to Small and Micro-Enterprises in Africa especially in Kenya, as main commercial banks are strict, rigid and too demanding when it comes to requirements for a credit facility approval; title-deeds, Logbooks and other securities for collateral which many Entrepreneurs of this caliber lacks. Microfinance institutions already have a big presence and an enormous potential clientele base which with good strategies on competitive advantage, they can explore it maximum and grow their capital base as well as their clients' statuses. This has influenced the researcher to carry out an assessment on the effects of competitive advantage in micro-finance sector which in the research's view will boost the finance industry, and in the long run increase revenue to the country.

Kenya women finance trust was established when Women Lawyers, Bankers, Financial Experts, Entrepreneurs, Managers and Trainers got together in 1981. Their vision was to set up a financial Institution devoted to addressing solely financial needs of women. In fact, their specific objective was to set up a woman serving, woman led bank. These women of great resolve contributed money to set up the organization. Instead of a bank, they established a "Trust" because of the challenges posed by the banking regulations and requirements. KWFT has come a long way to be what it is today: a Kenyan success story. The Institution – Kenya Women Finance Trust Limited is unique in Kenya. It is the largest and only Deposit Taking Micro-finance Institution exclusively for women. It is built on the belief that women can transform their lives, those of their families and the way the world works through entrepreneurship. Kenya Women Finance Trust has grown from small beginnings in 1981 into an Institution with 400,000 members in 2015 all over the forty seven Counties in Kenya. The Institution had achieved overall sustainability by March 2009. Since then, the Institution has

continued to consolidate its break-even status and to post profits that are ploughed back into the programme to grow the portfolio.
In its early days, KWFT depended substantially on donor grants to finance both lending activities and administrative expenses. Since 1994, KWFT began borrowing from other NGOs and the financial sector for incremental capital. By March 2003 60% of the outstanding portfolio was financed by funds borrowed from commercial sources locally and internationally. The Ford Foundation as a social investor was the first in this category to support scaling up strategies for KWFT through a loan under the Programme Related Investment Facility. From the year 1996, all Programme Administration costs were covered by internally generated income. KWFT Staff has also grown with the Programme and the Institution from 6 in 1992 to 3000 by December 2015.
KWFT DTM LTD is the largest regulated women only serving institution in Africa and the leading deposit taking microfinance institution in Kenya with 47.2% market share. (CBK, 2016). The institution targets low income women as an entry and contact point to their families with the objective of alleviating poverty through provision of innovative savings and credit products tailored to meet customer needs. This is in line with KWFT DTM's vision of being the Women Financial Solutions Provider with a Difference and mission of Partnering with Women in their Creation of Wealth.

KWFT has an expansive branch network with 42 operational branches and 276 marketing outlets all over the country. The Unique Clientele of Women as the majority or women run SMEs has given KWFT an edge over competition, together with its unique products, unique banking halls; providing breast feeding mothers a special room is an act of customer care. The institution has also adopted innovations through Mobile banking and Flexible debit cards which works with both Kenswitch and Visa platforms.

In today's highly dynamic and competitive business environment, firms are exposed to strict challenges with meeting the ever-increasing market and customer needs and expectations, coping with sophisticated requirements, and facing technological obsolescence. Until the 2000s, established Microfinance Institutions in Kenya did not have to worry about competition. This period was characterized by rigid and strict credit terms and control on lending by the Commercial banks that focused on Secured lending methodology to avoid Credit risk, and also the very high Interest rates charged by the few existing 'Shylocks' but this changed in the late 2009's after Commercial banks opened up to Micro businesses and set up micro-credit departments or subsidiaries in the name of Microfinance Institutions, opening a window for competition in this segment. Many 'Shylocks' have also come up with softer terms of lending.
Many foreign exchange bureaus and money remittance companies have also entered the sector. As business environment became more complex, accompanied by increased competition, changes in lending practices and new regulatory requirements i.e the Interest Capping regime there is unprecedented business failures in the MFI Sector.
In order to keep afloat in this scenario, MFIs have to constantly review their competitive advantage strategies by exploiting their mechanisms to keep ahead of competition from other financial providers to guarantee a reasonable rate of return on investment to their members. However to be able to achieve competitive advantage, Hannula, and Pirttimaki (2008), argued that a company's competitive edge is gained through the ability to anticipate information, turn it into knowledge, craft it into intelligence relevant to the business environment, and actually use the knowledge gained from it to out-maneuver its competitors.

This therefore means that there is no one ideal competitive advantage strategy that can ensure a notable and outstanding performance of the MFIs. MFIs controls a paltry 12% of the financial activities in Kenya, KWMF Bank has a Market share of 15% of the Microfinance business and an Asset base of Kenya Shillings 30 Billion in comparison to the banking Industry's Kenya Shillings 1.7 trillion (CBK 2016) with the number of loans standing at 337, 000 as compared with 1.8million in the banking sector and 914.4 million in microfinance institutions AMFI (2013). The Commercial banks have reduced their Interest rates on Lending to an average 8.5% per annum with the Interest capping regime of 14% having been introduced and SACCOs who mainly are at 12% per annum, compared to KWMF Bank at 17%. With the introduction of new products like Pesalink in the industry and M-Akiba by the government, competition is going to get tougher. Given this situation there was need therefore to investigate the effects of competitive advantage strategies on performance of Micro-finance institutions with a specific focus in KWMF-Mombasa.

Objectives of the Study

- To investigate the effects of cost leadership strategy on performance of Kenya Women Micro-Finance Bank in Mombasa.
- To examine the effect of differentiation strategy on performance of Kenya Women Micro-Finance Bank in Mombasa.
- To find out the effects of focus strategy on performance of Kenya Women Micro-Finance Bank in Mombasa.
- To identify the effect of innovation strategy on performance of Kenya Women Micro-Finance Bank in Mombasa.

RELATED LITERATURE

Theoretical Framework

This section covers the competitive advantage theory, Resource Based Theory, Market Based View and the Hedge- Hog theory.

Competitive Advantage Theory (Porter, 2008)

A firm is said to possess a competitive advantage over the other firms in competition when its profits exceeds the average for the industry. The goal of much of Business strategy is to achieve sustainable competitive advantage. Michael Porter identified two basic types of competitive advantage: Cost advantage and Differentiation advantage. A competitive advantage exists where a firm is able to deliver same benefits as the competitors at a lower cost (Cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus a competitive advantage enables the firm to create superior value for its customers and superior profits for itself through superior products than competitors' Arend (2016). Cost and differentiation are known as positional advantages since they describe the firm's position in the industry as a leader in either cost or differentiation.

In cost focus a firm seeks a cost advantage in its target segment Pankaj (2009), while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the service delivery system must be unique from competition. As cost focus exploit differences in cost behavior in the segment differentiation deals with special needs of the buyers in certain segments. Quality has been heralded as the source of competitive advantage (Hill, 1998) Quality service must be adopted as a strategic goal in an organization.

The Resource Based Theory (RBT)-(Penrose, 2008)

The resource-based view of the firm (RBT) draws attention to the firm's internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment. The idea of the resource-based view is credited to Penrose (2008) from her description of the importance of firms' use of their resources to gain competitive advantage. This is an approach for analyzing competitive advantage in firms. It combines the internal or the core competencies in the internal perspectives of strategy. According to Barney (2015), it was developed to explain how organizations achieve sustainable competitive advantage. He however criticized its lack of clear treatment of the environmental dynamics that guide development of new resources. He came up with an additional framework (VRIO- value, rarity, inimitability and organization support) to explain the required characteristics of a competitive strategy that can contribute to competitive advantages of firms. The resource-based view focuses on the idiosyncratic, costly-to-copy resources of the firm, and whose exploitation may give a firm competitive advantage.

The major assumptions of the resource-based view are resource heterogeneity, which assumes that firms are bundles of products and services with firms possessing different bundles of these resources, and resource immobility, which assumes that some of these resources are either very costly to copy or imitate or either inelastic in supply (Barney, 2015). These resources can either be tangible or intangible and they include all assets, capabilities, competencies, organization processes, firm attributes, information, knowledge that are controlled by a firm and that enable it to conceive of and implement strategies designed to improve its efficiency and effectiveness (Pearce & Robinson, 2015; Barney, 2011).

A firm's resources are categorized into either financial, physical, human or organization capital. These resources or internal attributes of firms have been referred to as the core competencies or core capabilities of firms that give them a competitive advantage. To achieve this, the resources must be valuable, rare, costly-to-implement (inimitability) and applied by organized systems of a firm to realize their full potential. The resource-based view and the VRIO (value, rarity, imitability, and organization) framework can be applied to individual firms to understand whether these firms will gain competitive advantage and how sustainable this competitive advantage can likely be. Peteraf, (2010) outlined four resources characteristics that can lead to sustainable competitive advantage namely, the heterogeneity, ex post limits to competition, ex-ante limits to competition and imperfect mobility which have implications on the inelastic supply of such resources (Barney, (2011); Teece, 2010). The resource based view is useful in informing about risks as well as benefits of diversification strategies. This theory has several limitations namely, unforeseen environmental upheavals or drastic turbulence, managerial influence that is limited, and data challenges based on intra-organization resources. However, it complements other analyses such as Porter's five-force model, the generic strategies and opportunity analysis (Barney, 2011).

Care for and protect resources that possess these evaluations, because doing so can improve organizational performance. Technology transfer can be significant source of competitive advantage for firms in developing countries with limited Research & Development resources (Lin, 2016). Based on the empirical writings stated above, RBV provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage. An organization should exploit existing

business opportunities using the present resources while generating and developing a new set of resources to sustain its competitiveness in the future market environments; hence, an organization should be engaged in resource management and resource development.

Market-Based View of the Firm

The Market-Based View (MBV) of strategy argues that industry factors and external market orientation are the primary determinants of firm performance (Bain, Caves, Porter, Peteraf, Bergen, 2010). Bain's (2008) Structure-Conduct Performance (SCP) framework and Porter's (2008) five forces model (which is based on the SCP framework) are two of the best-known theories in this category. The sources of value for the firm are embedded in the competitive situation characterizing its end-product strategic position**.** The strategic position is a firm's unique set of activities that are different from their rivals. Alternatively, the strategic position of a firm is defined by how it performs similar activities to other firms, but in very different ways. In this perspective, a firm's profitability or performance are determined solely by the structure and competitive dynamics of the industry within which it operates (Schendel, 2009).

The Market-Based View (MBV) includes the positioning school of theories of strategy and theories developed in the industrial organization economics phase of Hoskisson's account of the development of strategic thinking (of which Porter's is one example) (Hoskisson, 2009; Mintzberg ,2008; Porter, 2008). During this phase, the focus was on the firm's environment and external factors. Researchers observed that the firm's performance was significantly dependent on the industry environment. They viewed strategy in the context of the industry as a whole and the position of the firm in the market relative to its competitors.

In formulating strategy, firms commonly make an overall assessment of their own competitive advantage via an assessment of the external environment based on the five forces model (Porter 2011). The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter, 2011). In this perspective, a firm's sources of market power explain its relative performance. Three sources of market power are frequently highlighted: monopoly, barriers to entry, and bargaining power (Grant, 2010). When a firm has a monopoly, it has a strong market position and therefore performs better (Peteraf, 2010). High barriers to entry for new competitors in an industry lead to reduced competition and hence better performance. Higher bargaining power within the industry relative to suppliers and customers can also lead to better performance (Grant, 2010).

The five-force model enables organizations to analyze the current situation of their industry in a structured way. However, the model has limitations. Porter's model assumes a classic perfect market as well as static market structure, which is unlikely to be found in present-day dynamic markets. In addition, some industries are complex with multiple inter-relationships, which make it difficult to comprehend and analyze using the five force model (Wang, 2009). Prahalad and Hamel (2010) suggested that competitive advantage based on resources and capabilities is more important than just solely based on products and market positioning in term of contributing to sustainable competitive advantages.

Contrary to Porter's focus on industry, Penrose (2008) and others (Prahalad & Hamel, 2010; Rumelt (2011) has emphasized the importance of the (heterogeneous) resources that firms use, as the primary source of competitive advantage. Furrer (2008) suggested that since the 1980s onwards, the focus of studies in strategic management has

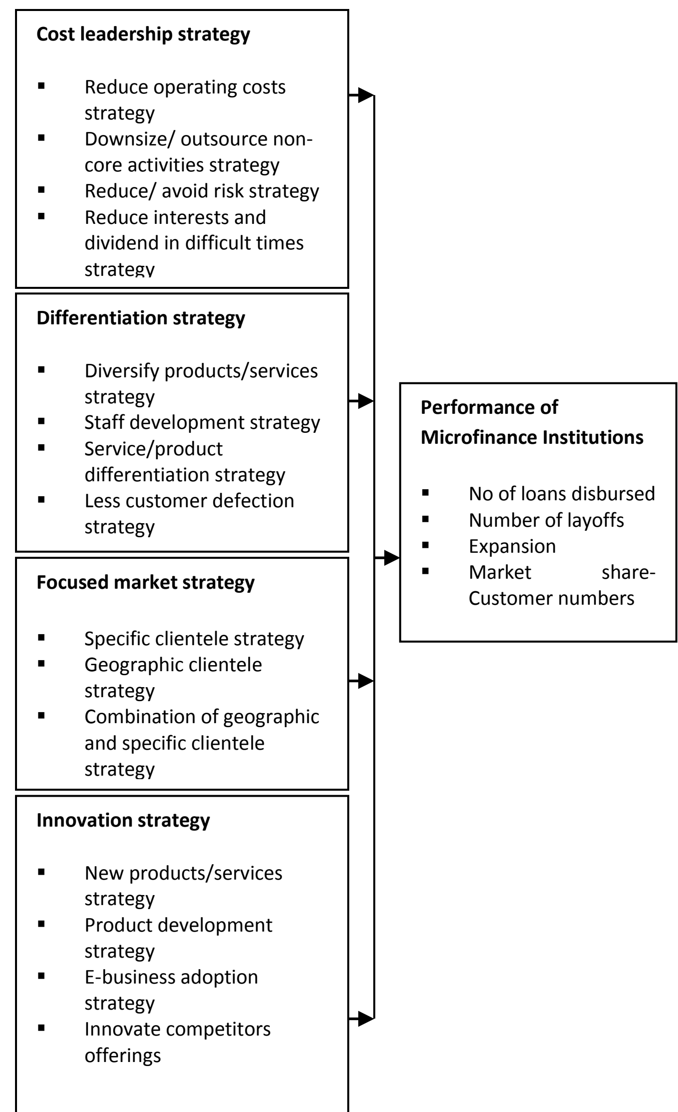
changed from the structure of the industry (MBV) to the firm's internal structure, with resources and capabilities. This approach to strategy is known as the Resource-Based View (RBV).

The Hedgehog' Jim Collins Theory

"Strategy is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and fulfill stakeholder expectations" (Johnson & Scholes, 2012). Collins' Hedgehog Concept is very similar. With this concept, the value proposition of the strategic focus is expressed as "What drives your economic engine -- the piercing insight of the single denominator -- profit per x -- that has the greatest positive impact on the economics of the business, which is value proposition take to the level of strategic competitive advantage. How valuable are these ideas on strategy? It's a good question. Strategy drives revenue. If you're not in a position to desire growth, or your satisfied with the status quo than these strategy elements will fall on deaf ears. Of course there's a danger in not growing. "When you're green you grow, when you're ripe you rot."

Understanding is the key. Here are the three circles of the Hedgehog Concept: What you can be the best in the world at (and, equally important what you cannot be the best in the world at). If you cannot be the best in the world at your core business, then your core business cannot form the basis of your Hedgehog Concept. This basic understanding goes far beyond core competence. A core competency does not guarantee that you can be best in the world at it. Conversely, what you can be the best at might not even be something in which you are currently engaged. What drives your economic engine? Most of the good-to-great companies discovered a single driving denominator as profit per x, which had the greatest impact on their economics. For social sector, instead of economic, resource engine – which is broken into three parts as time, money, and brand.

The Conceptual Framework



Independent Variables Dependent Variable

Figure 1 : Conceptual Framework

Review of Competitive Advantage strategies

This section reviews cost leadership strategy, differentiation strategy, focus strategy and innovation strategy which results to profitability, customer, market share and asset base growth, bringing about the performance of MFIs.

Cost Leadership Strategy

A firm that chooses a cost leadership strategy focuses on gaining advantages by reducing its economic costs below the costs of all its competitors (Barney, 2011). Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight costs and overhead controls, avoidance of marginal cost accounts and cost minimization in many areas like advertising, services etc. Here, low costs relative to competitors becomes the theme running through the entire strategy although quality and other areas cannot be ignored (Porter, 2008).

Achieving a low cost overall position often requires a high relative market share or other advantages such as favorable access to raw materials, having a high degree of capitalization (Porter 2008, Pearce and Robinson 2011). A low cost leader is able to use the cost advantages to charge lower prices or enjoy higher profit margins. He can thus defend himself in price wars, attack competitors on price to gain market share (Pearce & Robinson, 2011). Once low cost is achieved, the position provides high margins which can be re-invested in new equipments and modern facilities in order to maintain the cost leadership (Porter, 2008). It defends the firm against powerful buyers who can exert power to drive costs down and also against powerful suppliers by providing more flexibility to cope with input costs increases. In addition it places it places the firm in a favorable position vis-à-vis substitutes relative to its competitors in the industry.

For a successful execution of the cost leadership strategy the firm has to have sufficient financial resources, adequate process engineering skills and intense supervision of labor and low cost distribution capability. According to Mbugua, (2011) organizations following the cost leadership strategy have manufacturing and material management at the centre of attention. To successfully apply the cost leadership strategy the cost leader normally ignores the different market segments and positions its products to appeal to the average customer. This is because developing a line of products tailor made to meet the needs of different market segments is very expensive. Business firms in the manufacturing industry employ Lean manufacturing principles and the five sigma management system to achieve low cost leadership strategy. These two management systems are aimed at minimizing wastage during the production process and are also aimed at producing at the lowest cost possible.

Porter's generic strategies are ways of gaining competitive advantage – in other words, developing the "edge" that gets you the sale and takes it away from your competitors. There are two main ways of achieving this within a Cost Leadership strategy; increasing profits by reducing costs, while charging industry-average prices and increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced cost. The cost or price paid by the customer is a separate issue. The Cost Leadership strategy is exactly that – it involves being the leader in terms of cost in your industry or market. Simply being amongst the lowest-cost producers is not good enough, as you leave yourself wide open to attack by other low-cost producers who may undercut your prices and therefore block your attempts to increase market share.

Secondly, Options theory has influenced corporate strategy unlike any other paradigm coming from Wall Street. The "real option" is analogous to the financial option in that a company with an investment opportunity holds the right but not the obligation to purchase an asset at some time in the future. Business schools have taught managers to analyze/evaluate investment decisions using net present value (NPV), which assumes one of two things: 1) the investment is reversible or 2) if not, it is a now-or-never proposition. In fact, most investment decisions are irrevocable allocations of resources and capable of being delayed. Dixit and Pindyck (2015) discuss how the options approach to capital investment provides a richer framework that allows managers to address the issues of irreversibility, uncertainty, and timing more directly. The first approach is achieving high asset utilization. In service industries, this may mean for example a restaurant that turns tables around very quickly, or an airline that turns around flights very fast. In manufacturing, it will involve production of high volumes of output. These approaches mean fixed costs are spread over a larger number of units of the product or service, resulting in a lower unit cost, i.e. the firm hopes to take advantage of economies of scale and experience curve effects.

The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service. Production costs are kept low by using fewer components, using standard components, and limiting the number of models produced to ensure larger production runs. Overheads are kept low by paying low wages, locating premises in low rent areas, establishing a cost-conscious culture, etc. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. This will include outsourcing, controlling production costs, increasing asset capacity utilization, and minimizing other costs including distribution, R&D and advertising. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

The third dimension is control over the value chain encompassing all functional groups (finance, supply/procurement, marketing, inventory, information technology etc) to ensure low costs. For supply/procurement chain this could be achieved by bulk buying to enjoy quantity discounts, squeezing suppliers on price, instituting competitive bidding for contracts, working with vendors to keep inventories low using methods such as Just-in-Time purchasing or Vendor-Managed Inventory. Wal-Mart is famous for squeezing its suppliers to ensure low prices for its goods. Other procurement advantages could come from preferential access to raw materials, or backward integration. Keep in mind that if you are in control of all functional groups this is suitable for cost leadership; if you are only in control of one functional group this is differentiation. For example Dell Computer initially achieved market share by keeping inventories low and only building computers to order via applying Differentiation strategies in supply/procurement chain. This will be clarified in other sections.

Cost leadership strategies are only viable for large firms with the opportunity to enjoy economies of scale and large production volumes and big market share. Small businesses can be cost focus not cost leaders if they enjoy any advantages conducive to low costs. For example, a local restaurant in a low rent location can attract price-sensitive customers if it offers a limited menu, rapid table turnover and employs staff on minimum wage. Innovation of products or processes may also enable a startup or small company to offer a cheaper product or service where incumbents' costs and prices have become

too high. An example is the success of low-cost budget airlines who despite having fewer planes than the major airlines, were able to achieve market share growth by offering cheap, no-frills services at prices much cheaper than those of the larger incumbents. At the beginning for low-cost budget airlines choose acting in cost focus strategies but later when the market grow, big airlines started to offer same low-cost attributes, cost focus became cost leadership. A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will switch once a lower-priced substitute is available. A reputation as a cost leader may also result in a reputation for low quality, which may make it difficult for a firm to rebrand itself or its products if it chooses to shift to a differentiation strategy in future.

Differentiation Strategy

With a differentiation strategy, organizations focus their effort on particular segments of the market and charge for the added differentiated value. New concepts which allow for differentiation can be patented. However patents have a certain life span and organization always face the danger that their idea that gives the competitive advantage will be copied in one form or another (Porter, 2014). Firms that succeed in a differentiation strategy often have access to leading scientific research, highly skilled and creative product development team, strong sales team with the ability to successfully communicate the perceived strengths of the product and a corporate reputation for quality and innovation.

Differentiation strategy is usually developed around many characteristics such as product quality, technology and innovativeness, reliability, brand image, firm reputation, durability, and customer service, which must be difficult for rivals to imitate. A firm implementing a differentiation strategy is able to achieve a competitive advantage over its rivals because of its ability to create entry barriers to potential entrants by building customer and brand loyalty through quality offerings, advertising and marketing techniques. Thus, a firm that implements a differentiation strategy enjoys the benefit of price-inelastic demand for its product or service. This would in turn help the firm to avoid potentially severe price competition and allow it to charge premium prices leading to above-normal profits (Porter, 2008). The successful implementation of the differentiation strategy requires resources and skills such as strong marketing capabilities, product engineering skills, creative flare, corporate reputation for quality, reliable and durable products and/or technological leadership, and strong cooperation from distribution channels (Porter, 2008).

According to McCracken (2009) the key step in devising a differentiation strategy is to determine what makes a company different from a competitor's. Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2016). To be effective, the message of differentiation must reach the clients. When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2010). This is not to suggest costs and prices are not considered; only it is not the main focus (Hlavacka, 2010).

According to Dulo (2014) a differentiator chooses a high level of product differentiation to gain competitive advantage; accordingly product differentiation can be achieved in three principle ways i.e. quality, innovation and responsiveness to customers. When differentiation strategy is based on responsiveness to customers, a company offers a comprehensive after sales service and product repair after the actual purchase of the products by the customers. According to Kariuki (2016) a firm

that is pursuing the differentiation strategy strives to be the service leader, quality leader, the style and technology leader, but because it is not possible for a company to be all these things, the firm cultivates the strengths that will contribute to its intended differentiation strategy approach.

According to Kariuki (2010) differentiation requires strong marketing skills, superior product engineering and quality, and close coordination of R & D, production, distribution and marketing functions. According to Chepkwony (2008) the differentiation strategy aims at improving the products or the organizations image or quality by adding value or improve features of a product. Thus a differentiated product commands a higher selling price than the products that are not differentiated. Differentiation can be done through technology, design, distribution and product features.

Many firms strive for a competitive advantage, but few truly understand what it is or how to achieve and keep it. A competitive advantage can be gained by offering the consumer a greater value than the competitors, such as by offering lower prices or providing quality services or other benefits that justify a higher price. The strongest competitive advantage is a strategy that that cannot be imitated by other companies (Prajogo, 2011).

The maker of expensive suits may offer its suits in the widest array of colors, but if 95 percent of the consumers wear only black and navy blue suits, then the wide array of colors adds little perceived value to the product. Variety would not become a competitive advantage, and would be a waste of resources. A difference may be worth developing and promoting, if it is important, distinctive, superior, communicable, preemptive, affordable, and profitable.

Firms that successfully differentiate themselves are rewarded for their uniqueness on the product characteristics, the delivery system, the quality of service, or the distribution channels with a premium price (Akan et al, 2016; The economics inherent in this generic strategy require that the premium exceeds the extra cost incurred in being unique (Hlavacka et al, 2011). Moreover, the differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price (Allen et al, 2012)

Thus, the objective of a differentiation strategy is to persuade the market/industry that there is a "distinct gap" between a company's product and other companies competing against it (White, 2016). This gap can be based on real or physical differences (such as: size, shape, colour, weight, design, material, and technology embodied) of a product that will create a unique characteristic which will influence a satisfactory number of buyers to purchase it.

The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's. Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (Prajogo, 2011). To be effective, the message of differentiation must reach the clients as the customer's perceptions of the company are important (Berthoff, 2009).

Van Raaij & Verhallen (2014) suggest bending the customer's will to match the company's mission through differentiation. When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2013). This is not to suggest costs and prices are not considered; only it is not the main focus However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Allen et al, 2015; Prajogo, 2015

A differentiation strategy will be successful when within an industry there are numerous ways to differentiate a product and buyers perceive those changes as value added to their preferences. Moreover, the more diverse buyers' preferences are the more room for differentiators exist to pursue different approaches to add features to their offerings (Hitt et al., 2015; Thompson & Strickland III, 2016). Similarly, to maintain customers' interests' differentiators need to invest in product innovations and thus launch a sequence of versions of the updated product (Hitt et al., 2015; Thompson & Strickland III, 2016; Murray, 1988). Murray (1988) states that a differentiation strategy will be useful only when buyers' purchasing decisions are based on product attributes other than price.

Last but not least, a differentiation strategy adds cost to those choosing to employ such strategy (Porter, 1985). Being unique demands a continuous investment and effort to identify unique opportunities. Thus, a differentiator will choose to purchase higher quality raw materials and inputs, launch an extensive advertising and promotional campaign, continually train its employees to achieve higher standards and quality, and offer an extensive after-sales service support (Grant, 1996; Porter, 1985). Some forms of differentiation will therefore be more expensive to adopt than others (Porter, 1985).

According to White (2016) there is a potential for differentiation strategy which exists on the *demand side* (a market segment which requires a specific need and refers to the technical nature of the product and its physical characteristics define the potential to satisfy customers' requirements) and on the other hand, on the *supply side* (is the ability of a company to achieve a differentiation of the product).

Various other authors have suggested ways of achieving differentiation and their position is quite similar to Porter's (2015). For instance, Chen (2010) states that a company can achieve differentiation by enhancing product attributes in a way that adds value to buyers. Such differentiation can be achieved though technology, brand usage, additional features, and unique services (pre and after sales). In addition, companies need to adopt a 'dominant design' and create bonds with their customers through the superiority of their product and services (Chen, 2010).

Another type of differentiation strategy aims at the continuous improvement of products and processes. In this case, the main concern of the organization is its intellectual capital and employees are required to become knowledge workers and be involved in planning, quality control, problem identification and problem solving

Porter (2008) states that there are additional opportunities for differentiating factors when a company focuses on a broad competitive scope. It is essential for differentiators too achieve high levels of consistency and coordination among value chain activities: a company's ability to serve its customers' needs anywhere a single point of purchasing; commonality throughout the product range (product rationalization) can simplify maintenance; single point for customer service where customers can have access; customers can use a company's products because of compatibility within the range.

Having defined the dimensions of a differentiation strategy, the researcher now will investigate ways of achieving such a strategy and the uniqueness drivers that relate to it. Such an examination will provide a robust theoretical background to understand how value activities can be utilized by companies wishing to employ a differentiation strategy.

Focused Strategy

The focus strategy whether anchored in a low-cost base or differentiation base attempts to attend to the needs of a particular market segment (Pearce and Robinson, 215). It rests on the premise that a firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result the firm achieves either differentiation from better meeting the needs of the particular target market or lower costs in serving this market or even both (Porter, 2008).

Firms pursuing this strategy are willing to service isolated geographic areas, satisfy needs of customers with special financing, inventory or servicing problems or even to tailor the products to somewhat unique demands of the small to medium-sized customers. The firms that achieve this strategy may potentially earn above-average returns for its industry. It can also be used to select targets that are least vulnerable to substitute products or where competitors are weakest. According to Njoroge (2015) the focus strategy is aimed at narrowing the market segment, products and category or certain buyers. This helps firms to narrow their operations to specific markets and thus they are able to achieve competitive advantage. According to Gakumo (2015) the focus strategy has two variants; cost focus and differentiation focus. A business firm that is not pursuing any particular strategy but is choosing between various aspects of different strategies is said to be stuck in the middle and cannot show progress.

A study done by Gakumo (2015) on the application of porters generic strategies on commercial banks in Kenya showed that focus strategy with 15% was the second most applied strategy. A further 40% of the banks were stuck in the middle meaning that they failed to develop their strategy in at least one of the three directions. According to Dulo (2015) the focus strategy differs from the other two strategies because it is directed towards serving the needs of a limited customer group or a specific market segment. This study by Dulo (2015) indicates that a focus strategy provides an opportunity for entrepreneurs to find and exploit a gap in the market by developing an innovative product that customers cannot do without. Study done on the factors influencing the marketing strategies adopted by micro and small entrepreneurs in Eldoret in Kenya by Chepkwony (2015) indicates that the focus strategy is about achieving competitive advantage by concentrating on a particular market or product niche. An organization following such a strategy seeks to identify and satisfy a market niche or a certain segment of the market. Kariuki (2009) indicates that in a focus strategy the firm focuses on a limited set of customers and through either a cost leadership or differentiation strategy or a combination of both, the firms try to gain competitive advantage over their competitors pursuing either cost leadership or differentiation strategy on a broader industry wide basis.

According to Jowi (2015), a firm that follows a focus strategy tries to monopolize a niche in the market place, that may fall anywhere within the area on the left side of the Porters curve. In a study done by Kariuki (2009) on the competitive strategies and performance of five star hotels in Nairobi, Kenya indicates that 21% of the respondents considered focus as a strategy very important while 58% rated this strategy as important; therefore 80% of the respondents used the focus as a strategy in their business.

In order to lead the business to its greatest competitive advantage, there must be a mechanism to focus the organization on what it will do best and keep it from getting distracted by other

opportunities that come along. This mechanism it the strategic focus of the business.

The focus strategy is that intersection of three key elements of the business model: The organization's passion -- its compelling purpose composed of values, mission, vision, and goals which inspire and motivate the members of the organization, the value proposition of the business -- what the customer values in the offerings and rewards the organization for doing, and a distinctive competency -- what the organization can be best in the world at. Though an organization can operate without this strategic focus, there is strong evidence to indicate that organizations that develop and have the discipline to adhere to a strategic focus have a significant long-term competitive advantage.

Note: Over 70% of companies producing persistent superior economic performance over 20 years or more were one business companies. (Wiggins, 2009). The four systems aspects are purpose, function, process, and structure. The strategic focus ties to three of these - passion ties to the purpose aspect, the value proposition to the function within the environment of the organization aspect, and the distinctive competency with the process aspect. The reason there is not an element of strategic focus related to structure is because structure answers ""how"" questions, while the purpose, function, and process are essentially "what" questions - at least as related to the strategic focus. In strategy development, "how" follows from "what".

Innovation Strategy

Innovation has always been a sought after area for organizations in any country. Innovation is identified as the main driver for companies to prosper, grow and sustain a high profitability (e.g. Drucker, 2015; Christensen, 2015). Research by (Ford, 2012; Kanter, 2015; Van de Ven, 2012; Wolfe, 2009) suggests that the term ‘innovation’ can be defined in terms of a new or innovative idea applied to initiating or improving a product, process, or service. Innovation has been a buzz word in banking right from beginning. Many researchers have contributed their best towards developing frameworks for innovation. Several authors have developed various frameworks, drivers, and steps on how to be innovative from an organization perspective.

Several innovation models have been proposed by various authors under various titles. Innovation has been categorized into business model innovation, operations innovation, product innovation e.t.c. business model innovation refers to activities that considerably change the structure and /or financial model of a business. Every company has a business model, whether they articulate it or not. At its heart, a business model performs two important functions: value creation and value capture. Operations innovation defines improvements in the effectiveness and efficiency of fundamental business processes and practices, while product/ services/ markets innovation refers to the creation of new or fundamentally differentiated products, services or activities in markets.

Financial innovations are key factors to the growth of financial institutions. In this section Automated Teller Machines, mobile banking, internet banking, electronic fund transfer and group lending microfinance are discussed in light of the effects they have towards growth of the MFIs. Automated Teller Machines are of two types. They range from those that allow for withdrawals of cash in addition to account statements to those that accept deposits and allow for a line of credit payments. To get to the inbuilt innovative features, one should own an ATM card and account that belongs to the bank that operates the ATM in question. The tomorrows ATMs are those that are complete-service terminals (Abernathy & Utterback, 2015).

Most banks and MFIs own ATMs. Many institutions and individuals purchase or lease ATMs in which case profit models are anchored on charging fees to the machine's users in which case, they help eliminate the burden of customer service by bank tellers being a cost cutting measure on payroll costs. Consequently, MFIs serve many clients due to efficiency and effectiveness of the services (Devlin, 2015).

Wyman (2012) observed that though the use of mobile phones in banking services had been around for years but it's till recent that new modalities spread speedily to those that had earlier on been unbanked. The main impetus towards this position is the cheap mobile banking services but with a wide coverage due to mobile networks as opposed to services as offered by the classical retail bank outlets. Coetzee, Kamau & Njema (2013) observed that mobile banking services reached formally unbanked lots thought to have created a transition towards formal from informal transactions in which case triggering growth economically.

E-banking as is commonly referred is the use of internet and networks of telecommunications networks to provide a broad array of better services and products to the clients of the banking sector. Hence internet as a medium of offering banking is a significant delivery avenue for a better reach to the continuously growing clientele hence being in a position to create and sustain good incomes to the MFIs (Wyman, 2012). Online banking therefore does enable MFIs' clientele conduct routine banking activities conveniently (Devlin, 2015). Therefore financial institutions should embrace information systems to meet the clients' expectations since they are well cognizant of technological happenings (Devlin, 2015).

Oluwatolani, Joshua & Philip (2011) explained that electronic networks that enhance funds transfer support large piles of data incorporating other technical challenges like switching EFT messages and terminal requirements, Gonzalez (2015) also observed that the e-baking has undergone real speedy developments altering traditional banking practices. Discussing the matter, Mosongo (2013) observed that thanks to the computerization of banking practices, the financial sector has become intense since the initial ATM was used - USA in 1968 that was a mere cash vending machine (Jabnoun & Al-Tamimi, 2013).

Performance of microfinance institutions

Sales profit maximization will be realized through: cost focus; Increasing profits by reducing costs, while charging industry-average prices and Increasing market share through charging lower prices, while still making a reasonable profit on each sale because you've reduced costs. Differentiation; Firms that successfully differentiate themselves are rewarded for their uniqueness on the product characteristics, the delivery system, the quality of service, or the distribution channels with a premium price. The economics inherent in this generic strategy require that the premium exceeds the extra cost incurred in being unique. Moreover, the differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product and willing to pay a higher price and lastly doing what you are best at without being destructed by the happenings in the industry, these will ensure expansion. And due to expansion, the institution creates room to invest more on assets like, land and building for office space, motor vehicle and office equipment to help in service delivery, shares and stocks for more returns on investments. All these helps improve financial position of the institution.

METHODOLOGY

The design used in the current study is a descriptive design. Cooper and Schindler (2012) define a descriptive survey as an attempt to collect data from members of a population in order to determine the current status of that population in respect to one or more variables. The Researcher used convenience sampling as means of gathering information from the selected group of respondents. This does not leave out any element hence higher chances of accuracy, and reliability of information since it is directly involving staff.

Table 1 indicated that the mean ranged from 3.53 (SD=.891) for 'Cost reduction measures embraced by all' to a mean of 4.09 (SD=.514) for 'this MFI is lowest cost leader in the sector'. The values are interpreted to range from just near neutral statement to agree statement. The findings thus indicate that, cost leadership was not intensively or clearly a leading competitive strategy employed by

RESEARCH FINDINGS

Cost leadership strategy in MFI in Mombasa

Five items of cost leadership were used to gauge the intensity of application of the cost leadership as a competitive strategy. Descriptive statistics presented in

MFIs. The findings imply that there was some attempt by MFIs to implement cost leadership initiatives in their organizations in order to be competitive. They attempted to achieve this through resource utilization. Based on the knowledge that cost leadership is often driven by company efficiency, size, scale, scope and cumulative experience (Kavale *et al,* 2014), the MFIs endeavoured to be efficient in resource utilization.

Table 1: Descriptive Statistics from cost leadership strategy in MFI

	N	Mean	Std. Deviation
Cost reduction measures embraced by all	34	3.53	.861
We have effectively minimized avoidable cost	34	3.53	.861
There effective resource utilization here	34	3.68	.638
Cost reduction is in heart of management here	34	3.68	.638
This MFI is lowest cost leader in the sector	34	4.09	.514

Differentiation Strategy Descriptive Statistics Result

Table 2 the mean score values of differentiation and their respective standard deviations. The value ranged from 3.41 (SD=.657) for 'Differentiating services/products is emphasized here' to a mean of 3.68 (.843). On average the values fall into neutral category. It therefore meant that the result

The result presented in

indicated mild agreement regarding extent of differentiation strategy among the MFIs. Based on the mean values, the study concluded that there were mild attempt to create a product or service with sufficiently distinctive attributes that it sets the business apart from the competition.

Table 2: Differentiation Strategy Descriptive Statistics Result

	N	Mean	Std.Dv.

Differentiating services/products is emphasized here	34	3.41	.657
products are differentiated/unique and customers genuinely perceive that uniqueness as of value	34	3.44	.660
We have minimum customer defections, thanks to our unique products/services	34	3.47	.620
organization packages products/services uniquely from those offered by our competitors	34	3.53	.992
Our strength is the uniqueness in our services/products	34	3.68	.843

Focus Strategy Descriptive Statistics in MFI in Mombasa

The result in table 3 indicated that the mean score values on usage of focus strategy ranged from 3.76 (SD=.855) to a mean of 4.00 (SD=.921). This observation implied that respondents agreed that focus strategy was used in those MFIs. The key success factor was clarified by these employee was the effective focus on the different specific market segments. These findings meant that the MFIs leverage competitive advantages in their marketplace to achieve high levels of performance. They dominate specific market segments where they focus their efforts. Focus strategy identifies the market segments where the company can compete effectively. They match their strategies with market characteristics where a focus of the company's resources is likely to lead to desired sales volumes, revenues and profits.

Table 3: Descriptive statistics result from Focus strategy in MFIs in Mombasa County

	N	Mean	Std.DV.
All employees are sensitized and have internalized focus strategy	34	3.76	.855
There is clear strategy of tailoring services towards clientele needs	34	3.91	.866
we focus on serving specific customers of particular income levels only	34	3.91	.830
strength in our performance can be attributed to identifying different market segments	34	4.00	.921

Innovation in MFIs in Kenya

The result in table 4 indicates that the mean score values on usage of innovation strategy ranged from 3.26 (SD=1.238), that is neutral to a mean of 3.82 (SD=.626), that is agree. Thus these observations imply that respondents somehow agreed that MFIs in the County use innovation strategy as a competitive as a competitive strategy. Therefore according to the respondents, forms were somehow innovative though not extensively. As such their key success factor lies in clarification by these employee was the effective focus on the different specific market segments. These MFIs seemed to be aware that innovation of products/services innovation effort is the centre of success in the industry and therefore they were somehow innovation-conscious. Such organizations tend to encourage all employees, partners, and suppliers to take an active role in innovation. They welcome new ideas and new approaches. They look to the future to anticipate the customer's future needs Acharya (2017).

Table 4: Descriptive Statistics from Innovation in MFI in Mombasa

	n	Mean	Std.D

we constantly develop and improve existing products/services	34	3.26	1.238
innovation has been key performance driver in this organization	34	3.44	.960
this organization is constantly involved in financial innovations	34	3.65	.950
products/services innovation is the Centre of our success in this organization	34	3.82	.626

Descriptive statistics of Performance of MFI in Mombasa County

Table5 were the mean and standard deviations of performance indicators in MFIs in Mombasa County. It is evident that the mean of the performance indicators values ranged from a low of 2.94 (SD=.886) to a mean of 3.82 (SD=.616). Thus these observations imply that respondents somehow agreed that MFIs in the County somehow performed. A closer scrutiny of the means of performance indicators revealed that Mfi have not experienced growth in number and amount of loans disbursed in the recent past (m=2.94, SD=.886) due to high default rates as a result of harsh economic times. However the number of new customers is on the increase (m=3, 82 SD=.616). The plausible interpretation to this is that the hash economic times have led to increased demand for capital for individual. This explanation is based on the view that despite the fact that Commercial banks are charging capped rates at 14%, they have stringent conditions and requirements for one to get a credit facility making it difficult for many micro businesses while MFIs are a bit friendly making them destination of choice for those fleeing from banks to alternative avenues regardless of the interest expense but rather the accessibility of the credit facility.

The results in

Table 5: MFI Performance Descriptive statistics

	N	Mean	Std.Deviation
This Mfi has experienced growth in number and amount of loans disbursed in the recent past	34	2.94	.886
Employees of this Mfi are in constant fear of layoffs based on its performance	34	3.68	.638
The organization is financially doing well compared to other competitors	34	3.68	.806
The organization is in currently recording constant increased profits	34	3.76	.955
There is substantial increase in number of new customers	34	3.82	.616

Correlation results

Composite scores of the four independent variables were computed. The result obtained in

Table6 indicated that all the independent variables are positively correlated with performance. Cost leadership and differentiation are negatively correlated (r=-.430) indicating that firms that tend to extensively use one strategy, uses the other strategy less often. Focus strategy and differentiation strategy are positively correlated (r=.599, p<.001) indicating that firms that focus strategy tended to differentiate their products and service. This findings can be attributed to the view that the firms develop policies that target a relatively narrower niche of potential customers and serves with differentiated products that meets their needs than the when targeting broad market. In this regard, a focused differentiation strategy provides unique features that fulfill the demands of a narrow segment of market. Focus and cost leadership are positively correlated (r=.227, p=.197), indicating businesses that competed extensively on cost leadership, tended to extensively focus particular market segments. A focused cost leadership strategy competes on price

on a targeted a niche market and therefore able to develop exemplary expertise about the goods and services that they offer in focused strategies. In markets where product knowledge is vital, rivals and new entrants find it difficult to compete with the firms that follow a focus strategy. As such the positive relationship is expected. One other major finding here is the positive correlations between the IVs and performance in MFIs. That is, cost leadership (r=.362, p=.035), differentiation (r=.568, p<.001), and focus (.759) are positively and significantly correlated with performance. Indicating that increased initiatives in these predictor variables would result in increased performance. Though innovation and performance are positively correlated (r=.363, p=.065), the correlation is not statistically significant. The lack of significance relationship implies it could be a chance correlation and as such increase in innovation may not necessary result in significant increased MFI performance.

Table 6: correlation result between independent Variables and dependent variable

		Cost	Diff.	Focus	Inno	Perfm
Cost	Pearson Correlation	1				
	Sig. (2-tailed)					
Diff	Pearson Correlation	-.430*	1			
	Sig. (2-tailed)	.011				
Focus	Pearson Correlation	.227	.599**	1		
	Sig. (2-tailed)	.197	.000			
Inno	Pearson Correlation	.040	.467**	.431*	1	
	Sig. (2-tailed)	.824	.005	.011		
Perfm	Pearson Correlation	.362*	.568**	.759**	.363*	1
	Sig. (2-tailed)	.035	.000	.000	.065	

Regression Results

The regression coefficients result in Table 7 indicated that cost leadership positively contributed the Multiple regression analysis was used to test if cost leadership, differentiation, focus and innovation significantly predicted performance in MFIs. The results of the regression indicated the three predictors explained 64.6% of the variance (R^2=.646, F (2, 55) =13.243, p<.0001). It is found that focus significantly predicted MFIs performance (β = .178, p<.05), as did cost leadership strategy (β =.178, p<.05). Based on the p-values (which are < .05), there is statistical evidence that innovation (β = .248, p<.05) and differentiation (β = .268, p<.05) significantly influence performance in MFIs. Key findings here competitive strategies significantly influenced MFIs performance. the findings imply that higher performance of MFIs is realized in institutions that have differentiated services and products, cost leaders and with a distinct focused niche market. The niche market could be women or men or youths.

Table 7: Regression Coefficients

Model	Unstandardized Coefficients	Std. Coeff	t	P

		B	Std. Error	Beta		
1	(Constant)	.697	.256		2.722	.012
	Cost	**.178**	.073	.219	2.438	.025
	Differentiation	**.268**	.102	.175	2.627	.032
	Focus	**.691**	.124	.701	5.557	.000
	Innovation	**.248**	.075	.229	2.307	.028

a. Dependent Variable: Performance

The regression coefficients were fitted in the model to obtain the regression model;

$$\text{MFIs Perfomance} = .697 + .178\text{CST} + .158\text{DFF} + .691\text{FOCUS} + .048\text{INNOVA}$$

From the model, an increase in cost leadership initiative will result to an increase in MFIs performance by 0.178 units. These findings suggest that cost leadership strategy has a positive effect on performance of MFIs in Mombasa. This is indeed the case since a low cost leader is able to use the cost advantages to charge lower prices or enjoy higher profit margins Firms that are leaders in lowering their economic cost would have advantage that they pass on to their customers.

On differentiation, a unit increase in differentiation of services and products results in .158 unit increase in performance. These findings suggested that differentiation strategy had a positive effect on performance of MFIs in Mombasa. These findings are supported by the resource-based view of the firm (RBV) that suggests that a firm's internal competencies is a key driver in utilizing its rare imitable resources to gain cost advantage in its production process. A unit increase in focus initiative will result in .691 units increase in performance. The result suggests that focus strategy has a positive effect on performance of MFIs in Mombasa. As the firms intensify to focus a particular niche of customers, they serve them better. This is based on the view by Pearce and Robinson (2015) who noted that focus strategy whether anchored in a low-cost base or differentiation base attends to the needs of a particular market segment better. Thus the way to improve performance in MFIs in Mombasa is to tailor the products to somewhat unique demands of the small to medium-sized customers. Finally, a unit increase in innovation initiatives will result in .048 unit increase in performance. Therefore innovation had a positive effect on performance of MFIs in Mombasa County, thus MFIs that frequently find out how it can build its innovation culture from people at all levels of the company are more likely to come up with low cost processes and differentiated products for customers, Tus translating to Microfinance performance.

The analysis of variance result in table 8 indicated that the regression model was significant ($F_{4, 29} = 13.248$, $p < .001$). For that reason, the model was appropriate in forecasting performance in MFIs.

Table 8: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.245	4	.811	13.248	.000[b]
	Residual	1.776	29	.061		

Total		5.021	33		

a. Dependent Variable: Performance. b. Predictors: (Constant), Innovation, Cost Leadership, Differentiation, Focus

Cost leadership, differentiation, focus and innovation strategy data was regressed with performance data. The summary of the regression model result in 0 indicates that the independent variables were strongly correlated with performance (R=.804), they collectively accounted for about 65% of variance in MFIs performance (R square=.646). The other percentage (35%) is explained by other factors not considered in this study.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.804[a]	.646	.598	.24747

Discussion of findings

Both men and women were well presented in the workforce. This diversity was advantageous to the MFIs given that diverse employees form better problem solving teams because they use their difference in viewpoints, ideas, and market insights to make final decision. This advantage was supported by the arguments put forward by Furrer (2015) that a demographically diverse workforce improves a company's financial performance. It was found that employees had accumulated years of experience working in the banks. So they were exposed to a number of workplace scenarios that could benefit any manager as well as the overall business. Based on resource based view theory, these MFIs are capable therefore of using their internal resources as strengths to create a competitive advantage under different work scenarios. Empirically firms that have firms that nurture experience and talents in its work force, they produce quality products efficiently (Maun, 2010, Mokka 2011 Turnbull, 2010) and become more competitive in the long run(Kissinger, 2013). The study established that changes in focus strategy had greatest influence on MFI performance. MFIs that recorded high performance are those that would effectively intensify and clarify their market focus whether under differentiation or cost strategy. The findings are in line to the view by Porter (2008) who noted that a firm is able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target market or lower costs in serving this market. The study found that MFIs adopted both cost leadership and differentiation strategy to some extent, providing evidence they employed both differentiation and cost leadership concurrently. Fortunately or unfortunately they are stuck in what Michael Porter described as being “stuck in the middle” of the generic strategies of differentiation and cost leadership. One disadvantage of being stuck in the middle is that the MFIs do not offer the high value for money and distinctive product or service that is provided from a differentiated business. And they don’t offer the low prices that can come from buying from the cost leader.

Being stuck in the middle position happens when a business designed to be low cost starts adding little extra accompaniments which don’t add a corresponding amount to the customer value of a product. It is necessary that the MFIs adopt one

strategy, wisely selected and have the courage and conviction to follow through and commit to turning it to a success. With regard to the MFIs to cost leadership strategy, in order to provide the lowest rated price in terms lowest interest rated loans. The firms have to consider the following; the dynamics of today's business environment, fluctuating costs, value-conscious customers, and strong competition. All these makes fixing the price a challenge more than ever. Understanding the costs involved in running a business is an essential element of sound pricing and profitability. As such the MFIs need to consider the total cost of obtain the financing as well as overhead expenses (facilities, administration, etc.) to arrive at the actual cost of each unit. In this way they determine the profit margin to add to arrive at the optimum interest rate. This calls for MFIs to engage skillful experts to determine the most appropriate pricing model of their services and products Maxier (2015). In summary, MFIs are important in generating jobs for the citizens. Their continued source of job creation depends on their overall performance. Specifically their survival and growth depend on their ability to compete successfully. To achieve these they need to be effective in utilization of their internal capabilities to tap into the external opportunities in the sector. On the other hand, they should take advantage of their internal resources to reduce the effects of external threats like stringent government regulations. To achieve all these they need to develop internal capabilities that is superior to those by competitors. Based on the argument that those institutions that are capable to offer products at a lower-than-typical market price can usually induce more business from budget-conscious buyers, the need for innovation and proper scanning of the environment forms the cornerstone of survival and growth of MFI which are faced by competition from large and financially strong banks.

CONCLUSIONS

The study investigated the influence of cost leadership strategy on performance of Kenya Women Micro-Finance Bank in Mombasa. Correlation result indicates that cost leadership had a positive relationship with MFIs performance. Regression result suggests that cost leadership had a significant influence on MFIs performance. Thus MFIs management and MFIs stakeholders need to focus on leadership initiatives in order to achieve their performance goals.

- Regarding differentiation strategy, correlation and regression findings suggest that differentiation initiatives were positively associated to performance in MFIs. However, regression result found a positive non-significant influence of differentiation initiatives on MFI’s performance. As such differentiation initiatives adopted by these MFIs did not significantly predict their performance level. As such they were not effective in contributing substantially to their performance objectives.
- Focus initiatives are key determinants of MFI’s performance. For that reason, prioritizing focus initiatives throughout the firm would enable them achieve good performance status. This status is crucial in an economy in creating the highly sought for jobs. As such MFIs can engines of development through job creation.
- Innovation efforts employed by the MFIs in Mombasa are key determinants of their level of performance. Thus the innovative efforts were not effectively producing differentiated products that appeals to customers nor provide services and products at lowest cost. Based on the market theory, putting up innovative programs that considers both industry factors and external market orientation is critical in producing innovative products and services that are effectively competitive. The MFI were stuck in the middle of the generic strategies. As such it is concluded that MFIs in Mombasa are not

able to offer the high value for money and distinctive product or service that is provided from a differentiated business. And yet they don't offer the low prices that come from a cost leader.

RECOMMENDATIONS

- The MFIs should attempt to be cost leaders in the sector so as to achieve high profitability. They can achieve this by creating cultures that are ruthless about creating cost advantages. Specifically, they aim to reduce costs in every function of a business, by finding and exploiting all sources of cost advantage and having appropriate technological innovation protected by trade secret/patents. All these initiatives create competitive advantages, thus enhancing MFI's performance.
- It is also recommended that the MFIs to stick to one clear competing strategy so as to create a competitive advantage. The MFIs management should avoid middle of the strategies because they end up not providing differentiated product that customers appreciate as unique or being low cost leaders in the industry. Defining clearly their competitive strategy and pursuing it consistently will prove valuable in their performance agenda in the long run. In this way they can grow in terms of customer numbers, profitability, and loan portfolio and even create more jobs for the citizens in the region.
- MFIs should focus their efforts to one specific target market and aim to serve the designated group better than anyone else out there. Often it is a tiny niche that larger banks don't serve. In this regard, MFIs in the region usually target local small income earners in the region and leave the rest to the large banks. Nevertheless they should be watchful and worry that the niche could disappear or be taken over by larger competitors.
- The management of firms should consider ways inculcating a culture of innovation that seeks to implement innovative programs that are in line with customer demands and economic realities in the market.

Areas for Further Study

The study was conducted using data from a relatively small sample of 34 employees. This limitation has inherent consequences. One of which is making inaccurate conclusions. The study therefore recommends a study that uses a large sample size

This study has only addressed the focus strategy, differentiation, focus and innovation. These variables collectively accounted for about 65% of variance in MFIs performance. There is need for future studies that include other factors not in the model that accounted for the remaining 35%. By so doing a comprehensive model predicting MFIs will be obtained.

Finally, it is clear that current study was undertaken in one bank (women MFI) in Mombasa with only 4 branches. Thus the study findings may not accurately reflect on all MFIs in the Kenya and even the region as whole. As such there is need for another study to be considered in future that incorporates more MFI from other regions in Kenya.

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