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An Assessment of the Survival Strategies Adopted by Microfinance Institutions in Nakuru Town, Kenya

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Abstract:
Microfinance industry has emerged as a powerful avenue for poverty alleviation globally. However it has witnessed a rise in the number of micro finance institutions which are all competing for the same market in Kenya. Following the changes in the environment, micro finance institutions have been forced to come up with competitive strategies hence this study sought to establish the competitive strategies employed by microfinance institutions and their effects on survival. The specific objectives of the study included: to assess the effects of defensive market strategy on survival of microfinance institutions, to establish how dodging strategy on survival of microfinance institutions and to determine the effects of expansion strategy on survival of microfinance institutions. The key variables of the study were: defensive market strategy, dodging strategy and expansion strategy. The study thus adopted a descriptive survey design where selected micro finance institution managers and business development officers rated their institutions on the basis of the study variables to capture information the way it was without manipulation. Stratified random sampling method was used to select the elements of the study sample. The target population for the study comprised of all the sales managers, and business development officers of micro finance institutions with operations in Nakuru Town. Data was collected by use of questionnaires designed by the researcher and based on the study objectives. The data was then analyzed using descriptive statistics such as percentages, frequencies, mean and standard deviation. Multivariate regression analysis was also done to deduce statistical inferences. The study revealed that: competitive strategies applied by micro finance institutions had an impact on the survival of micro finance institutions and overreliance on defensive strategies had a negative impact on firms survival. Further offensive strategies when carefully selected had a positive impact on firms survival by helping them to venture into markets for the future and dodging strategies are the most effective in enhancing firms survival. They enhance firms market growth with minimum competition costs.

Keywords: *Microfinance, Competitive strategies, Dodging strategy, Offensive strategy, defensive strategy*

1. Introduction

Exclusion of the poorest of the poor from formal finance and the subsequent lack of access to credit has therefore been focused on as a key economic challenge affecting the poorest of the poor. As a result, State (2008) emphasizes on the need for credit by the poor, especially in the rural areas, though this has been termed difficult due to the strict demand for collateral by credit lending institutions. About 4 billion people worldwide live on less than US$2 per day (Microfinance Bulletin, 2008a) and poverty is one of the major problems that is still prevailing in today's world.

The microfinance industry in Kenya has grown significantly since its introduction in 1990. By the year 2013 there were 57 microfinance institutions registered under the Association of Microfinance Institutions (AMI) in Kenya (AMFI, 2013). These operate branches countrywide therefore enhancing competition. The microfinance sector in Kenya has become highly competitive with the presence of downscaling of commercial banks and with the ever growing base of microfinance service providers both in the formal and informal markets. The deepening of the financial sector is majorly driven by the thriving of mobile banking and payment system. The competition stakes are expected to get higher with the entry of new players in the microfinance and SACCO industry (AMFI, 2013). In a highly competitive market, companies adopt various survival strategies.

1.1. Statement of the Problem

Microfinance industry has emerged as a powerful avenue for poverty alleviation globally. In sub-Saharan Africa the concept has gained prominence leading to rapid growth and development of small scale microfinance institutions. In Kenya by end 2013 there were 57 microfinance institutions operating under the association of microfinance institutions with branches all over the country. Microfinance institutions have also curved into the market niches for other finance institutions such as banks, SACCOS and Micro credit groups. Therefore to survive and grow in this highly competitive market, there is need to adopt effective survival strategies. The choice of a competitive strategy is critical for the survival and success of any organization. Superior performance can be achieved in a competitive industry through pursuit of the right strategies. The MFI industry has witnessed a rise in the number of MFIs which are all competing for the same market. Following the changes in the environment, MFIs have been forced to come up with competitive strategies hence this study sought to establish the competitive strategies employed by microfinance institutions and their effects on survival.

1.2. Objectives of the Study

i. To assess the effects of defensive market strategy on survival of microfinance institutions in Nakuru Town
ii. To establish how dodging strategy on survival of microfinance institutions in Nakuru Town
iii. To determine the effects of expansion strategy on survival of microfinance institutions in Nakuru Town

2. Research Methodology

2.1. Research Design

The study was quantitative in nature in that it sought to quantify the survival strategies and compare it survival of MFIs in Nakuru. Comparison of variables was done quantitatively using a multiple regression analysis. Opinions on strategies were quantified using five point lickert scales.

2.2. Target population

The target population for the study was comprised of all the Sales Managers, and Business Development Officers (BDOs) of MFIs with operations in Nakuru Town. According to the AMFI (2014) report, there are 32 MFIs with operations in Nakuru Town.

2.3. Sample and Sampling Techniques

The sample size was determined using the formula by Nassiuma (2000) as shown below:

$n= (Nc_v{}^{2)} / (c_v{}^2+ (N-1) e^2)$

Where n= Sample size

N= Population

C_v= Coefficient of variation (take 0.5)

e= Tolerance at desired level of confidence, take 0.05 at 95% confidence level

$n= (208 \times 0.5^{2)} / (0.5^2+ (208-1) 0.05^2)$

n= 67

This was proportionately distributed between the sales managers and the BDOs. Stratified random sampling technique was used to select the elements into the study sample. The population was therefore divided into two strata: sale managers and Business Development Officers.

3. Research Instruments

The study used the questionnaire as a tool in the collection of primary data. The tool is more systematic and structured which aims at obtaining information from respondents in a direct and open manner. The questionnaire was based on the three competitive strategy approaches: defensive, offensive and dodging. A section on survival was also included. These were measured using a five point lickert scale to establish the extent of application of each practice in the MFIs in relation to its growth rate. Reliability was ensured through piloting the questionnaires to selected BDOs in MFIs in Nakuru town. The instruments were then analyzed using the cronbach coefficient to determine the extent of reliability. A Cronbach Alpha reliability coefficient of 0.77 was obtained therefore tools were reliable.

4. Data Processing and Analysis

Quantitative data was summarized using descriptive statistics which include mean, mode, standard deviations, frequencies and percentages. Regression analysis was then done to determine how individual strategic orientation affected survival of MFIs in Nakuru County.

5. Findings

5.1. Defensive Strategies

A portfolio of 8 possible defensive strategies were given to sales staff to identify their intensity of application in their MFI on a scale of 1 – 5. The intensity of application was compared across strategies using the mean ranking as seen below.

	N	Min	Max	Mean	Std. Dev
1. Leveraging on technology to outdo competitors	61	1.00	5.00	3.62	1.07
2. Hiring the best people to help in attacking emerging firms	61	1.00	5.00	3.77	0.78
3. Aggressive price cutting to discourage new entrants from entering core segments	61	1.00	5.00	2.70	1.01
4. Stay In Tune With Customer Needs	61	1.00	5.00	3.57	1.29
5. Introduce fighting brands that is lower priced versions of the firm's premium brands	61	1.00	5.00	3.36	0.88
6. Avoid entering markets that are already occupied to avoid provoking any multi-market retaliation	61	1.00	5.00	2.56	1.12
7. Stay in certain markets to maintain the threat of multi market retaliation	61	1.00	5.00	3.54	0.99
8. Benchmark and Manage Costs Aggressively	61	1.00	5.00	4.23	0.83
Valid N (listwise)	61				

Table 1: Defensive Strategies Applied
Mean = 3.42, SD = 0.38
Source: Field Data (2015)

The findings show that majority of the MFIs sought to manage costs aggressively in addition to benchmarking with others in order to remain competitive (Mean = 4.23, σ = 0.83). Secondly, MFIs leveraged on hiring highly talented staff to help in attacking emerging firms (Mean = 3.77, σ = 0.78). Others leveraged on technology to outdo competitors in the market (Mean = 3.62, σ = 1.07). The fourth most applied strategy was stay in tune with customer needs(Mean = 3.57, σ = 1.29) to enable the MFI continuously meet their changing needs and defend them from competition.

5.2. Offensive Strategies

Similar to defensive strategies offensive strategies were analyzed to determine their intensity of application and a comparative ranking was done using the arithmetic mean

	N	Min	Max	Mean	Std. Dev
1. Going after the customers of the attacked firm with similar products, prices, promotion, and distribution	61	1.00	5.00	3.87	1.02
2. Exploiting opponent's weaknesses	61	1.00	5.00	3.08	1.48
3. Engaging offensive marketing strategy	61	1.00	4.00	2.54	1.21
4. Planning many small and surprise attacks on established competitors in areas where the attacked are not strong or have weak loyalty	61	1.00	5.00	3.41	1.12
5. Putting strategies which do not allow rivals to gain entry to the core markets.	61	1.00	5.00	2.66	1.25
6. Accepting lower profits for the purpose of keeping new competitors out	61	1.00	5.00	3.03	1.22
7. Inflicting damage on existing rivals and forcing them to exit the market	61	1.00	4.00	2.13	1.23

Table 2: Offensive strategies applied
Mean = 2.96, SD = 0.65

MFIs in Nakuru also considered offensive marketing strategies although to a lesser extent compared to defensive and dodging strategies as shown on table 4.11. Majority of the MFIs preferred to offend their competitors by going after the customers of the attacked firm with similar products, prices, promotion, and distribution method (Mean = 3.87, σ = 1.02). Guerilla tactics were the second most applied strategy (Mean = 3.41, σ = 1.12) where small MFIs used many small and surprise attacks on established competitors in areas where the attacked were not strong or had weak loyalty. Third, MFIs exploited their opponent's weaknesses (Mean = 3.08, σ = 1.48) to gain competitive advantage over them.

5.3. Dodging Strategies

The third category of strategies were dodging strategies where MFIs adopted strategies which avoided head on competition with others.

	N	Min	Max	Mean	Std. Dev
1. Seeking alternative undefended markets	61	1.00	5.00	3.77	0.82
2. Developing new products for untapped markets	61	2.00	5.00	4.15	0.83
3. Avoid highly contested markets	61	1.00	5.00	2.59	1.23
4. Product value addition	61	1.00	5.00	4.05	0.86
5. Forming strategic alliances	61	2.00	5.00	3.80	0.95
6. Joining forces with strong organizations	61	2.00	5.00	3.90	1.01
Valid N (listwise)	61				

Table 3: Dodging Strategies
Mean = 3.71, SD = 0.49

The most applied dodging strategy involved developing new products for untapped markets (Mean = 4.15, σ = 0.83), that is exploiting niche markets. This enabled MFIs to cope with the competitive environment without direct confrontations with competitors. Secondly was the product value addition (Mean = 4.05, σ = 0.86) which involved improving existing products to meet the customers' expectations in a better way. Other MFIs sought to joining forces with strong organizations (Mean = 3.90, σ = 1.01) in order to gain muscles to face competitive storms this was ranked third among the competitive strategies. Strategic alliances were identified as the fourth most common dodging strategy for managing competition in (Mean = 3.80, σ = 0.95) among MFIs. Seeking alternative undefended markets was ranked fifth at (Mean = 3.77, σ = 0.82) while avoid highly contested markets (Mean = 2.59, σ = 1.23) was ranked sixth among the dodging strategies applied in MFIs in Nakuru Town.

5.4. Survival of MFIs

In order to relate these variables, survival rate of the MFIs was determined by rating them based on agility scale by (ALberts, 2011). Agility measures firms' ability to survive and thrive in a highly turbulent and competitive environment by assessing five variables: responsiveness, versatility, flexibility, resilience, innovativeness and adaptability to change these were measured on a five point scale. The rating on survival of MFIs studied is shown below.

	N	Min	Max	Mean	Std. Dev
1. Responsiveness to market needs	61	1.00	5.00	3.67	0.79
2. Versatility in reacting to market trends	61	1.00	5.00	3.48	0.79
3. Flexibility	61	1.00	5.00	3.23	1.01
4. Resilience to business challenges	61	1.00	4.00	2.92	0.56
5. Innovativeness	61	2.00	5.00	3.55	0.85
6. Adaptability to change	61	1.00	5.00	3.13	0.97

Table 4: Survival of MFIs
Source: Field Data (2015)

MFIs were rated highest in responsiveness to market and customer needs at (Mean = 3.67, σ = 0.79) followed by innovativeness (Mean = 3.55, σ = 0.85). Versatility in reacting to market trends was also rated relatively high at (Mean = 3.48, σ = 0.79). MFIs were then rated moderate on flexibility (Mean = 3.23, σ = 1.01), adaptability to change (Mean = 3.13, σ = 0.97) and resilience to business challenges (Mean = 2.92, σ = 0.56). Overall, MFIs scored moderate on ability to survive in a competitive business environment.

5.5. Regression Model of Competitive strategies and Survival of MFIs

A model was developed to explain the nature of relationship between the two variables. The regression was based on the following model:

$y_i = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon_i$ where y_i is the dependent variable (growth), x_{ij} is the ith observation on the jth independent variable, and where the first independent variable takes the value 1 for all i(so β_1 is the regression intercept), and ε_i is the error in the ith observation.

- y_i = Survival of MFI
- x_1 = Defensive strategies
- x_2 = Offensive strategies
- x_3 = Dodging strategies
- ε_i = Standard Error

  α = constant

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.154	.109	.55507

Table 5: Model Summary
a. Predictors: (Constant), dodging strategies, offensive strategies, Defensive strategies

Results on the summary of regression analysis above revealed that R^2 = 0.154which implies that 15.4% of variation in survival of MFIs was determined by the survival orientation of competitive strategies adopted.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.188	3	1.063	3.449	.022[a]
	Residual	17.562	57	.308		
	Total	20.750	60			

Table 6: ANOVA[b]
a. Predictors: (Constant), dodging strategies, offensive strategies, Defensive strategies
b. Dependent Variable: Survival

The ANOVA tests results revealed that the regression model obtained using coefficients in table 4.16 was significant at 95% confidence level. This implies that competitive strategies significantly influenced the survival of MFIs in Nakuru Town. The nature of relationship is explained by Beta coefficients below.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.681	.708		2.376	.021
	Defensive strategies	-.084	.230	-.055	-.366	.716
	Offensive strategies	.235	.123	.261	1.908	.061
	Dodging strategies	.335	.164	.279	2.045	.045

Table 7: Regression Coefficients
a. Dependent Variable: Survival

$$y_i = 1.681 - 0.084x_1 + 0.235x_2 + 0.335x_3$$

Survival of MFIs = 1.681 - 0.084 Defensive competitive strategies + 0.235 offensive competitive strategies + 0.335 Dodging strategies

6. Discussions

This implies that defensive strategies applied by MFIs had a negative impact on their survival while offensive strategies had a positive impact on MFI survival. Dodging strategies had the largest impact on survival of MFIs. This can be explained by the fact that, whereas defensive strategies sought to defend the market current position of the firm, offensive strategies sought to penetrate new market segments that were already occupied by other players. On the other hand dodging strategies focused more on exploiting unexploited markets. While seeking to defend their current market positions, for survivalfirms should seek to blend these three strategies with more emphasis on dodging competition. Effective dodging strategies include: developing new products for untapped markets, seeking alternative undefended markets, product value addition, forming strategic alliances, joining forces with strong organizations.

7. Conclusions

Competitive strategies adopted significantly influenced the survival of MFIs in Nakuru Town. Defensive strategies though they protected the firms against competitive aggression, over reliance on them had a negative impact of firms' survival. Firms employing more of defensive strategies recorded less agility that is the ability to survive and grow. Offensive strategies had a positive impact on firms' survival. Offensive strategies by help the firm in venturing into new markets. This has an impact on the firms survival and enables it to thrive amidst growing competition. Dodging strategies were the most effective in enhancing firm's survival. Dodging enables a firm to venture in new untapped markets therefore enhancing firms market growth with minimum competition costs.

8. Recommendations

MFIs should carefully select their competitive strategies to maintain an optimum balance between defensive, offensive and dodging strategies. Defensive strategies in MFIs should be put at the minimum level to protect the firms against competitive aggression, otherwise over reliance on them would put a firms future at risk. Offensive strategies should be carefully selected to concentrate on those that gear towards gaining of new markets and new competitive advantage only. MFIs should capitalize on dodging strategies to grow their markets in areas that have not been developed. This would enable easy penetration and make it easy to gain competitive advantage over others. The study recommends further research using the same model of conceptualization of competitive strategies in other industries to determine whether the relationship holds across industries.

9. References

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