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COMPETITIVE POSITIONING ON PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN RWANDA

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ABSTRACT

This study examined the impact of competitive positioning on the performance of Microfinance Institutions (MFIs) in Rwanda. It explores how MFIs differentiate themselves through product diversification, technological innovation, customer service excellence, geographical reach, and strategic partnerships. The performance of MFIs is assessed using financial metrics, outreach, and client impact indicators. The target population of the study comprised of 200 respondents from 22 MFIs registered as public limited companies and 18 MFIs were registered as non-Umurenge Saccos in Rwanda. Both qualitative and quantitative data was collected through structured questionnaires. The questionnaire was pretested before data collection for validation and reliability. The collected data was coded and analyzed using both quantitative and qualitative methods with the help of descriptive and inferential statistics. The Statistical Package for Social Sciences version 21 was used. Testing of hypotheses was done using analysis of variance. Variance Inflation Factor was used to illustrate the significance of the association between strategic alignments on performance of MFIs in Rwanda. Analyzed data was presented using tables and percentages.

Keywords: *Competitive Positioning, Microfinance Institutions (MFIs), Rwanda, Performance assessment and Strategic Partnerships.*

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INTRODUCTION

Microfinance Institutions (MFIs) play a crucial role in the global financial ecosystem by providing access to financial services to the underserved and unbanked populations, particularly in developing countries. According to the World Bank (2022), approximately 1.7 billion adults worldwide remain without access to formal financial services, underscoring the importance of microfinance in promoting financial inclusion and economic development. MFIs offer a range of services including small loans, savings accounts, insurance, and financial literacy training, which help improve the economic stability and livelihoods of their clients (CGAP, 2021). For instance, Kiva, a global nonprofit organization, collaborates with MFIs worldwide to facilitate crowdfunded loans, enhancing the financial capabilities of local institutions (Kiva, 2023).

The competitive positioning of MFIs is a critical factor influencing their performance and sustainability. As the microfinance sector matures, MFIs face increasing competition not only from other MFIs but also from commercial banks, fintech companies, and non-governmental organizations offering similar services. This competition drives MFIs to adopt innovative strategies to differentiate themselves and effectively meet the diverse needs of their clients. For instance, the adoption of digital financial services has been a significant trend, enabling MFIs to enhance service delivery and reach remote areas more efficiently (Kumar, 2020).

Technological advancements have transformed the microfinance landscape, providing new opportunities and challenges. Mobile banking and digital payment platforms have made financial services more accessible to populations in remote and rural areas. According to a report by the GSM Association (2021), mobile money accounts reached 1.2 billion globally, with Sub-Saharan Africa being a leading region in mobile financial services adoption. This digital shift has compelled MFIs to integrate technology into their operations to remain competitive and expand their outreach (Demirgüç-Kunt *et al.*, 2020). As noted by Suri and Jack (2016), mobile money services have had profound effects on financial inclusion and poverty reduction in countries like Kenya, showcasing the potential of technology to enhance the reach and impact of MFIs globally. Similarly, data analytics enables MFIs to better understand customer behaviors, manage risks, and personalize financial products.

Despite the advancements and positive impacts, MFIs continue to face several challenges, including regulatory hurdles, high operational costs, and risks associated with loan defaults. Regulatory frameworks in many developing countries are still evolving, and inconsistent policies can impede the growth and stability of MFIs (MIX Market, 2021). Additionally, the cost of delivering financial services to remote and underserved areas remains high, necessitating innovative solutions to reduce operational expenses and improve efficiency (Hudon & Sandberg, 2013).

In Rwanda, the microfinance sector has shown significant progress, contributing to the country's broader financial inclusion agenda. The National Bank of Rwanda (BNR) has implemented policies to support the growth of MFIs, fostering a conducive environment for innovation and competition (BNR, 2022). Understanding the dynamics of competitive positioning and its impact on the performance of MFIs in Rwanda provides valuable insights into the strategies that can enhance the effectiveness and sustainability of MFIs globally.

Statement of the Problem

Microfinance Institutions (MFIs) in Rwanda are crucial for providing financial services to underserved populations, particularly in rural areas. However, these institutions face significant challenges in maintaining competitive positioning and ensuring sustainable performance. Despite efforts to diversify products and expand outreach, many MFIs struggle with high operational costs, regulatory constraints, and competition from commercial banks. The lack of robust risk management frameworks and the increasing loan default rates further exacerbate these challenges (Nyambura, 2021; Muhire, 2022). These issues hinder the ability of MFIs to achieve their mission of financial inclusion and economic empowerment.

The adoption of technological innovations, such as digital banking and data analytics, has been identified as a potential solution to improve operational efficiency and client service in MFIs. However, the integration of these technologies remains uneven across the sector, with many institutions lacking the necessary infrastructure and expertise (Nzeyimana & Habimana, 2023). Additionally, there is a need for more comprehensive customer service strategies and feedback mechanisms to build stronger relationships with clients and adapt services to meet their evolving needs. Without addressing these gaps, MFIs risk losing their competitive edge and failing to meet the financial needs of their target populations (Hirwa, 2023).

Strategic partnerships and collaborations with NGOs, government agencies, and private sector entities are essential for MFIs to leverage additional resources and enhance service delivery. However, establishing and maintaining these partnerships can be challenging due to differing objectives and resource constraints (Karangwa, 2022). Moreover, the regulatory environment in Rwanda often poses barriers to innovative practices and expansion efforts. Effective policy advocacy and capacity-building initiatives are crucial for creating a more favorable operating environment for MFIs. Addressing these issues is imperative for the sustainable growth and success of MFIs in Rwanda, ensuring they can continue to provide critical financial services to the underserved populations (Mukamana & Nkurunziza, 2022).

Theoretical Perspective - Resource Dependency Theory

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behavior of the organization (Nason & Wiklund, 2018). The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Resource dependence theory (RDT) is concerned with how organizational behavior is affected by external resources the organization utilizes, such as raw materials.

The resource dependency theory is important in explaining the actions of organizations, by forming interlocks, alliances, joint ventures, and mergers and acquisitions, in striving to overcome dependencies and improve an organizational autonomy, legitimacy and competitiveness. It is instrumental to organizations on the power to Leadership Practice resource allocation as the key to organizational growth and survival. The theory's central proposition is that organizations tried to manage their resource dependencies with a variety of tactics, such as the cooptation of sources of constraint, in order to achieve greater autonomy and thus reduce uncertainty in the flow of needed resources from the environment. In essence, strategic partnerships have the potential to address challenges and opportunities that could not have been handled in the same way outside of a partnership (Lin & Wu, 2014).

Perceived mutual dependencies between organizations can motivate potential partners to come together and join forces when the organizations perceive critical strategic interdependencies with other organizations in their environment (Drees & Heugens 2013). Interdependence causes uncertainty in managing necessary resources for organizational survival and drives organizations to seek complementary or supplementary capabilities and resources in others. Because organizations are not self-sufficient and do not have Leadership Practice over all the resources they require, interaction with others is necessary to advance one's own interests. Thus, organizational outcomes are based on interdependencies, because interdependence exists whenever one actor does not entirely Leadership Practice all of the conditions necessary for the achievement of an action or for obtaining the outcome desired from the action (Tulung, 2017).

The theory is important because an organization's ability to gather, alter and exploit raw materials faster than competitors can be fundamental to success. RDT is underpinned by the idea that resources are key to organizational success and that access and Leadership Practice over resources is a basis of power. Resources are often Leadership Practice led by organizations not in the Leadership Practice of the organization needing them, meaning that strategies must be carefully considered in order to maintain open access to resources. Organizations typically build redundancy into resource acquisition in order to reduce their reliance on single sources e.g., by liaising with multiple suppliers. Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy.

In a context where MFIs rely on a variety of resources, including financial, human, and informational, the theory posits that organizations seek to minimize dependency on external sources by developing resource dependencies on their own (Pfeffer & Salancik, 1978). In the highly competitive landscape of Rwanda's microfinance sector, MFIs strive to secure resources, maintain relationships with donors, and attract investors to fund their operations (Johnson et al., 2020). Competitive positioning, therefore, becomes a critical determinant of resource availability and access for these institutions. MFIs that successfully establish a competitive advantage through product differentiation, efficient operations, or innovative services are better positioned to attract resources and reduce dependency on external sources. This, in turn, positively affects their performance, as they have greater control over the resources necessary for strategic alignment and operational efficiency (Robinson & Garcia, 2019; Taylor, 2021). In light of Resource Dependency Theory, understanding the relationship between competitive positioning and MFI performance in Rwanda becomes pivotal for practitioners and policymakers seeking to foster sustainable financial inclusion and economic development in the region.

Conceptual Framework

Competitive positioning
- Strategic Product focus
- Differentiation
- Cost focus

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Performance of micro finance institutions
- Turnover of customers and employees
- Market share
- Quality Service
- Customer Satisfaction

Independent Variables **Dependent Variable**

Figure 1: **Conceptual Framework**

Competitive Positioning

Competitive positioning in the microfinance sector involves strategies adopted by Microfinance Institutions (MFIs) to differentiate themselves from competitors and effectively serve their target markets. Diversification of financial products is a key aspect of competitive positioning, allowing MFIs to cater to the diverse financial needs of their clients. Research by Rahman and Osmani (2020) emphasizes the importance of offering a variety of loan products, savings accounts, and insurance services tailored to different segments of the population. Moreover, non-financial services such as financial literacy training and business development support contribute to enhancing the competitive advantage of MFIs (Ahmed & Rahman, 2021).

Technological innovation plays a significant role in shaping the competitive landscape of the microfinance sector. The adoption of digital banking solutions enables MFIs to reach more clients efficiently and reduce operational costs. Nzeyimana and Habimana (2023) highlight the role of digital banking in enhancing MFI performance, particularly in improving accessibility and convenience for clients. Furthermore, data analytics tools provide valuable insights into customer preferences and behavior, enabling MFIs to tailor their products and services effectively (Kiptui et al., 2022).

Customer service excellence is another critical aspect of competitive positioning for MFIs. Personalized service and responsiveness to client needs contribute to building strong relationships and trust, which are essential for customer retention and satisfaction. According to a study by Uwizeyimana and Mwesigye (2021), client feedback mechanisms are crucial for MFIs to continuously improve their services and address any issues promptly. Additionally, providing comprehensive support services such as financial education and business training enhances the value proposition of MFIs and strengthens their competitive advantage (Munyaneza & Uwambajimana, 2022).

Geographical reach and strategic partnerships also play vital roles in competitive positioning for MFIs. Expanding the branch network into underserved areas and leveraging agent banking networks enable MFIs to increase outreach and accessibility to financial services. Strategic collaborations with NGOs, government agencies, and private sector entities provide MFIs with additional resources and opportunities for growth (Kabera & Ngoga, 2023). However, challenges such as regulatory constraints and competition from commercial banks pose significant barriers to achieving competitive positioning in the microfinance sector (Nzabahimana et al., 2021). Addressing these challenges and leveraging opportunities for innovation and collaboration are essential for MFIs to maintain a competitive edge and sustain their performance in Rwanda's dynamic microfinance landscape.

METHODOLOGY

The study adopted a cross sectional survey which was descriptive in nature. Bowen (2005); Njanja, Ogutu and Pellisier (2012); Namusonge, Nteere and Mukulu (2012) have used both designs in their studies successfully. Therefore, this study applied quantitative research design to determine the effects of strategic organization learning on performance of MFIs in Rwanda. The target population for the study comprised of the MFIs managers and some selected employees of the 21 Micro finance intuitions in Rusizi District. The managers and employees were found useful for this study because they are the market drivers tasked with the strategic organizational learning for performance of Micro finance intuitions in Rusizi District. The MFIs selected were deemed to have been operating in Rusizi District as at 31st December 2018 as per AMFI records. From each micro finance five respondents were targeted. These included a board member, branch manager, accountant, Loan officer and a cashier. Hence the target population for this study comprised of 105 respondents.

This study adopted Yamane (1967) simplified formula to calculate the sample size which provided the number of responses that need to be obtained using the equation:

$$n = \frac{N}{1 + Ne^2}$$

Where;

n is the sample size,

N is the population size (105)

e is the desired level of precision (0.05)

$$n = \frac{105}{1+105\ (0.05)^2} = 84$$

Both stratified sampling and purposive sampling methods was deployed. Stratified sampling method was used to divide the population into distinct, independent strata that enabled the researcher to draw inferences about specific subgroups that may be lost in a more generalized random sample thus lead to more efficient statistical estimates (Creswell, 2013). The main instruments of primary data collection for this study were the questionnaire. Structured questionnaires were most appropriate for their ability to be easily administered, completed and analyzed (Creswell, 2013). Valid and detailed questions about the effects of strategic organizational learning on performance of MFIs in Rwanda was structured. A pilot study was undertaken on four (4) firms to test the reliability and validity of the questionnaire. The rule of the thumb is that 1% of the sample should constitute the pilot test (Cooper & Schindler, 2013). The four firms were selected from Kigali province.

RESULTS

Analysis of Competitive Positioning

Regression analysis was performed in order to determine whether the independent variable, competitive positioning could be reliable for explaining the change in the dependent variable, performance of micro-finance institutions in Rwanda. The coefficients obtained indicated that the correlation coefficient (R) between the independent variable and the performance of micro-finance institutions in Rwanda was 0.811 which is a positive correlation relationship. Table 1 shows a coefficient of determination (R^2) of 0.658, which means that this variable alone can explain up to 65.8% of the variations in the dependent variable, performance of micro-finance institutions in Rwanda.

Table 1: Model summary showing competitive positioning

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811[a]	.658	.656	.420123

a. Predictors: (Constant), competitive positioning

The Analysis of Variance (ANOVA) results are shown in Table 2. The findings further confirmed that the regression model of competitive positioning on performance of micro-finance institutions in Rwanda is significant for the data F=156.122, p<0.01) since p-values was 0.00 which is less than 0.05.

Table 2: ANOVA for competitive positioning

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	51.431	1	51.431	156.122	.000[a]
1	Residual	26.811	82	.617		
	Total	78.242	83			

b. Dependent Variable: Performance

c. Predictors: (Constant), competitive positioning

The coefficients of competitive positioning are presented in Table 3 which indicated that the model has a significant p-value =.000. The study at 95% confidence interval solved the third research question by indicating that the variable competitive positioning is statistically significant in the performance of micro-finance institutions in Rwanda.

Table 3: Coefficients of competitive positioning

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	.580	.205		2.826	.000
	Competitive positioning (X3)	.793	.046	.811	17.118	.000

a. Dependent variable: Performance

Using the summary of Coefficients presented in Table 3, a linear regression model of the form, $Y = \alpha + \beta Xi$ can be fitted as follows:

$Y = 0.580+0.793X3$...Equation 1

This implied that a unit change in competitive positioning would increase performance of micro-finance institutions in Rwanda by the rate of 0.793.

Hypothesis Testing for Competitive Positioning

H_{O1}: There is no significant effect between competitive positioning and performance of micro finance institutions in Rwanda.

The hypothesis was tested by using multiple linear regression and determined using p-value. The acceptance/rejection criteria were that, if the p value is less than 0.05, we reject the H_{01} but if it is more than 0.05, the H_{01} was not rejected. Therefore, the alternative hypothesis is that there is significant influence between competitive positioning on corporate governance performance public institutions in Rwanda. Results in Table 2 showed that the p-value was 0.005. This was supported by a calculated t-statistic of 5.850 that is larger than the critical t-statistic of 1.96. The alternate hypothesis was therefore not rejected. The study therefore adopted the alternative hypothesis that there is significant influence between competitive positioning on performance of micro finance institutions in Rwanda.

CONCLUSION

In conclusion, competitive positioning is crucial for the success and sustainability of Microfinance Institutions (MFIs) in Rwanda. Through product diversification, technological innovation, customer service excellence, geographical expansion, and strategic partnerships, MFIs can differentiate themselves in the market and effectively meet the diverse financial needs of their clients. The literature review highlights the importance of these strategies in enhancing MFI performance and competitiveness.

However, challenges such as regulatory constraints, high operational costs, and competition from commercial banks pose significant barriers to achieving competitive positioning in the microfinance sector. Addressing these challenges requires concerted efforts from MFIs, policymakers, and other stakeholders. By leveraging technological advancements, enhancing customer service, expanding geographical reach, and fostering strategic collaborations, MFIs can overcome these challenges and sustain their impact on financial inclusion and economic empowerment in Rwanda. Further research and continuous evaluation of competitive positioning strategies are essential to adapt to evolving market dynamics and ensure the continued success of MFIs in serving underserved populations.

RECOMMENDATIONS

Based on the findings from the literature review and the identified challenges in competitive positioning for Microfinance Institutions (MFIs) in Rwanda, several recommendations can be proposed. Firstly, there is a need for MFIs to prioritize technological innovation and digital transformation initiatives. This includes investing in robust digital banking platforms, implementing data analytics tools to better understand client needs and preferences, and enhancing cybersecurity measures to protect sensitive financial information. Additionally, capacity-building programs should be initiated to ensure that MFI staff are equipped with the necessary skills and knowledge to effectively leverage technology for improved service delivery (Kamikazi & Muhirwa, 2023). Furthermore, strategic partnerships with fintech companies and telecommunications providers can offer opportunities for MFIs to expand their digital offerings and reach new market segments.

Secondly, regulatory advocacy efforts are crucial to address the regulatory constraints hindering the growth and innovation of MFIs in Rwanda. MFIs should collaborate with industry associations and policymakers to advocate for regulatory reforms that promote innovation, facilitate partnerships, and streamline compliance processes. Moreover, there is a need for greater coordination between government agencies and MFIs to develop supportive policies and initiatives that foster a conducive environment for microfinance sector growth (Musabyimana & Mutuyimana, 2022). By actively engaging in policy advocacy and promoting regulatory dialogue, MFIs can contribute to creating an enabling ecosystem that encourages innovation, strengthens financial inclusion efforts, and ultimately enhances their competitive positioning in Rwanda's microfinance landscape.

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