AN ASSESSMENT OF THE EFFECTS OF COMPETITION ON MORTGAGE INSTITUTIONS IN KENYA; A CASE STUDY OF HOUSING FINANCE

BY

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(MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

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A Research Project Report submitted to the Chandaria School of Business in Partial Fulfillment of the requirement for the Degree of Masters in Business Administration.

(MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

SUMMER 2014
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than United States International University in Nairobi for academic credit.

Signed:____________________________         Date:____________________________

Samuel Gakuru Mungai (ID 629623)

This project has been presented for examination with my approval as the appointed university supervisor.

Signed:____________________________         Date:____________________________

Dr. Paul Katuse

Signed:____________________________         Date:____________________________

Dean, Chandaria School of Business
ABSTRACT
The purpose of this study was to assess the effects of competition on mortgage institutions in Kenya with a case study of Housing Finance. The research objectives of this study were to examine the effects of competition on market share of mortgage institutions in Kenya, to determine the effects of cost efficiency on mortgage finance institutions in Kenya and to establish the effects of product and service innovation on mortgage finance institutions in Kenya. The study population was drawn from all financial institutions offering home ownership solutions through mortgage finance with the target population being Housing Finance Company of Kenya. The sample size comprised Housing Finance staff drawn from sales, marketing and credit with a stratified sampling technique being utilized. The target sample consisted of forty three (43) respondents drawn from Housing Finance staff.

The primary data for the study was collected by means of self administered questionnaires which were pilot tested to ensure reliability and validity of the data. The response rate for the questionnaires was 81.4%.

The findings established that market share; cost efficiency and product and service innovations influence the performance of mortgage institutions. Based on the study (79.1%) of the total respondents indicated that competitive market share affects mortgage institutions. The study established that competition leads to some mortgage institutions merging or entering into strategic alliances in order to enhance their capabilities and market share so as to remain competitive. Based on the study (91.4%) of the respondents indicated that cost efficiency influences mortgage institutions. This is because competition puts pressure on mortgage institutions to become cost efficient by reducing cost inefficiencies; forces mortgage institutions to minimize costs, offer services at lower prices. The study also established product and service innovation affect performance of mortgage institutions by stimulating innovation as mortgage institutions increase their competitiveness by continuously introducing new innovative products and services.

The main conclusion of the study was Mortgage institutions are forced to be exceptionally discriminative in their lending thus extending loans only to borrowers they consider less risky and cost effective hence this affects their market share and market acquisition capacities. The study recommends further studies be undertaken on a larger population and on other effects of competition not covered due to time and resource constraints.
ACKNOWLEDGEMENT

To

My dear parents from whom I drew much inspiration and support.

University supervisor Dr. Paul Katuse for his wise counsel and time sacrificed.

The Housing Finance staff for their co-operation.

And to the Almighty God with whom all things are possible.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study.

Competition is generally accepted as a positive force in most industries as it is supposed to have a positive impact on an industry’s efficiency, quality of provision, innovation and operational competitiveness (Vives, 2001). In fact the past twenty years has seen a process of liberalization, deregulation and unprecedented financial sector reform both in developing and developed countries. The aim of regulatory developments was to foster competition in order to improve the productivity, efficiency and profitability of the banking systems and also to increase competitiveness (Angelini & Cetorelli, 2003).

Banks responded to the new operating environment by adapting their strategies, seeking new distribution channels and changing their organizational structures (Schaeck & Čihak, 2008). Increased competition has also been considered the main driving force behind the acceleration in the recent consolidation process (Casu & Girardone, 2006). As a first-order effect, greater development, lower costs, enhanced efficiency, and a greater and wider supply resulting from competition will lead to greater access (Lang, 1996).

The financial mortgage subsector has been growing at a significant rate and in several countries it has become an important sub-sector of the formal financial markets. Especially during the past few years the growth of financial mortgage sector been unprecedented: during 2006-2008 annual growth rates amounted to 70-100 percent for a number of countries (Sinah, 2010). The number of financial mortgage service providers has also increased considerably. With the growth of the industry and the saturation of markets, increased competition has been documented in many countries (Porteous, 2006).

As in other industries, the degree of competition in the financial sector matters for the efficiency of production of financial services, the quality of financial products and the degree of innovation in the sector (Schaeck & Čihak, 2008). Banking competition is expected to provide gains by reducing monopoly rents and cost inefficiencies, in this way favoring investment and growth. On the one hand, a higher degree of banking competition should result in a lower monopoly power of banks, and therefore a decrease in banking
prices (McIntosh & Wydick, 2005). On the other hand, heightened competition encourage banks to reduce their costs, for instance their cost inefficiencies leading to lower costs and enhanced efficiency of financial intermediation, greater product innovation, and improved quality (Fernandez de Guevara, Maudo & Perez, 2007). Greater development, lower costs, enhanced efficiency, and a greater and wider supply resulting from competition will lead to greater access (Claessens, & Luc Laeven, 2004). Indeed a financial institution can gain competitive advantage over its competitors by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies a higher price (Cetorelli, 1999).

Financial institutions can also develop efficiency due to their repetitive experience of the tasks involved or using their power to leverage lower costs (Bikker, & Spierdijk, 2008). The other two routes an institution can acquire and maintain its competitiveness include offering continuous product and service innovation which have specific attractive features in the offering and at the same time meeting the needs of the customers better than the competition (Henderson, 2011).

In addition a financial institution can differentiate its products by offering innovative features, launching effective promotion, providing superior service and developing a strong brand name (Li & Zhou, 2010). The relationships between competition and banking system performance in terms of access to financing are more complex, however, with too much competition, banks may be less inclined to invest in relationship lending (Rajan, 1992). At the same time, because of hold-up problems, too little competition may tie borrowers too much to an individual institution, making the borrower less willing to enter a relationship (Petersen & Rajan, 1994; Boot & Thakor, 2000). More competition can then, even with relationship lending, lead to more access. Increased competition can, for example, lead to more access, but also to weaker lending standards, as observed recently in the sub-prime lending market in the United States (Dell’Ariccia, Laeven and Igan, 2008) but also in other episodes.

Kenya’s mortgage market has more than tripled in the past five years. Kenya’s mortgage market has grown from Kshs. 19 billion in 2006 to just over Kshs. 61 billion by mid 2010. This translates to an annual average growth of 34% indicating an exponential increase in
mortgage loans. The mortgage market is still relatively small by international standards with only 15,049 loans. While the steady growth rate in mortgage loans has been rapid at just under 50% since 2006 and has been growing steadily at 14% annually, the loan portfolio remains small (Mortgage Finance in Kenya, 2010). In terms of mortgage debt to GDP ratios, Kenya is low by international standards but is on par with its neighboring peers. Kenya’s mortgage debt compared to its GDP is better than its East African neighbors, Tanzania and Uganda (CBK & World Bank, 2010).

The size of established players has also grown tremendously with Housing Finance, Kenya Commercial Bank: Savings & Loan and Co-operative Bank leading in growth and expansion. This is an indication of the mortgage finance sector’s potential which has attracted mainstream commercial banks as well as savings societies. Co-operative Bank is the latest entrant into the mortgage market leveraging on its expertise in the co-operative movement to launch innovative “chama” accounts for the mortgage market.

Partnering with cooperative societies, it will provide loans at variable or fixed rate terms. Co-operative Bank of Kenya is also looking at reducing the closing costs, which is the total of down payment and other charges that one is required to raise beforehand in order to access a mortgage loan, by five per cent. Generally, closing costs account for between 15 per cent and 20 per cent of the value of a mortgage loan. Co-operative Bank is expected to become a major player in the mortgage market as it will work closely with Saccos and thus rope in individuals in the low-middle-income groups who desire to own homes. There are approximately 3,000 savings and credit co-operative societies (Saccos) across the country (CBK & World Bank, 2010).

Co-operative Bank joins other banks such as Barclays, CFC Stanbic, Standard Chartered and Investment & Mortgages Bank who have added mortgage portfolios into their product services. Though, most banks have adopted a cautionary approach to lending due to the on-going recession brought about by the prevailing drought, they have, nonetheless, continued to back properties for the high-end market. The returns to the mortgage financiers have been growing resulting in new entrants to the sector in the form of micro-finance institutions such as Faulu Kenya, Kenya Women Finance Trust and Jamii Bora trust joining the fray. The government is also making efforts at improving the efficiency
of the Lands Registry hence allowing Kenyans to invest more in land which is considered
to appreciate considerably compared to other investment options such as the stock and
money markets. Since its local incorporation in September 1992, Housing Finance has
progressively grown its branch network to 12 branches and 3 sales/services centers. As at
September 30, 2012, HFCK had an impressive 5,178 mortgage accounts worth Kshs.29.5b
and customer deposits of Ksh.24b, supported by a strong capital base of Ksh.6.1b (CBK,
2012).

1.2 Statement of the Problem
Mainstream Banks and microfinance institutions have entered the mortgage sector
previously the preserve of mortgage institutions such as Housing Finance which was the
pioneer of mortgage finance since the independence of Kenya. These banks are now
actively sourcing opportunities and servicing customer need for housing especially in the
low-middle-income groups where housing demand is greatest (CBK, 2010). The
consequences of this intense competition are seen in the overall performance of mortgage
institutions within the sector experiencing volatile profits, reduced growth rate and
increased operational costs. The market share is also dwindling for most of the market
players. However, the degree of competition in the financial sector has both negatively
and positively affected firms and households’ access to financial services, in turn affecting
overall growth of the real estate sector (CBK, 2012).

Fewer studies have tried to explain the degree of competition in particular markets.
Claessens and Laeven (2004) relate competitiveness (the H-measure) to indicators of
countries’ banking system structures and regulatory regimes and they found no evidence
that their competitiveness negatively relates to banking system concentration or the
number of banks in the market. Kick and Prieto (2013) examined bank risk taking and
competition and found out that increased competition lowers the riskiness of banks.
Bikker and Bos (2005) focused on the trends in competition and profitability in the
banking industry and established positive relation between competition and bank
profitability.
However there is limited information on the effects of competition on mortgage financial institutions in Kenya. Hence this study sought to fill this gap by examining the effects of competition on mortgage institutions in Kenya.

1.3 General Objectives
The objective of this study was to determine the effects of competition on mortgage institutions in Kenya; a case study of Housing Finance.

1.4 Specific Objectives
1.4.1 To examine the effects of competition on market share of mortgage institutions in Kenya.

1.4.2 To determine the effects of cost efficiency on mortgage finance institutions in Kenya.

1.4.3 To establish the effects of product and service innovation on mortgage finance institutions in Kenya.

1.5 Significance of the Study
The findings of this study will assist.

1.5.1 Policy
In practical terms the study was of value to Housing Finance and other Mortgage financial institutions as it gave insights on characteristics of competition in the mortgage sector and the effects on these companies which facilitated them to take necessary action either policy or operational to enhance their competitive position in the mortgage market.

1.5.2 Industry and Regulators
The study also sought to be of importance to real estate agents and developers who used the findings to take advantage of the competition in the mortgage market to increase their uptake of financial services from the most competitive financial institution so as to increase real estate development. In addition the findings of the study gave insights to the industry regulator on the level of competition in the mortgage sector and the effects of the same on mortgage financial institutions and facilitated positive regulatory action to enhance health competition and delivery of financial services to the sector.
1.5.3 Academia
In theory the findings of the study added to the body of knowledge in the areas of the effects financial competitiveness in relation to the mortgage sector. The study sought to provide background information to research organizations and scholars who will want to carry out further research in this area. The study facilitated individual researchers to identify gaps in the current research and carry out research in those areas.

1.6 Scope of the Study
This Research study was limited to examining the effects of competition on mortgage institutions in Kenya with particular reference to Housing Finance based in Nairobi. The study population was drawn from all financial institutions offering home ownership solutions through mortgage finance with the target population being Housing Finance Company of Kenya. The sample size comprised Housing Finance staff drawn from sales, marketing and credit with a stratified sampling technique being utilized. The study focused on the effects of competition on market share, cost efficiency and product and service innovation of mortgage institutions. The research study covered a period from 2005-2012 because it was the period when competition in the Housing Finance Sector picked pace.

1.7 Definition of Terms

1.7.1 Mortgage Institutions
Refers to institutions that provide finances to its customers to purchase homes without having all the cash available upfront and in return for advancing the money to the borrower, the mortgage institution collects interest on the monies advanced (Igan, 2008).

1.7.2 Competition
Existence within the market for some good or service of a sufficient number of buyers and sellers such that no single market participant has enough influence to determine the going price of the good or service (Casu & Girardone, 2009).
1.7.3 Innovation
Refers to introduction of a new idea, method, process or idea or the process of translating an idea or invention into a product or service that creates value for which customers will pay (Ottenbacher, 2007).

1.7.4 Market Share
Refers to the portion of a market controlled by a particular company or product (Sathye, 2002).

1.7.5 Cost Efficiency
Refers to minimizing operational expenses while maximizing output or achieving the greatest amount of operational output for the least amount of financial investment (cost) (Salleo, 2004).

1.7.6 Efficiency
Efficiency is a concept which indicates the ability to transform inputs into outputs according to a given production process (Salleo, 2004).

1.7.7 Commercial Mortgage
Commercial mortgage is a loan that uses commercial property as collateral. As with a residential mortgage, the lender holds a title in the property and may foreclose on that property if the mortgage goes into arrears (Commercial Lifeline, 2004).

1.8 Chapter Summary
This chapter examined the background information on the effect of competition on the Mortgage institutions, the statement of the research problem and the purpose of the study. The research objectives, research questions, importance of the study and scope were also discussed. Chapter two will delve into the literary works on the subject matter while chapter three will seek to describe the methods and procedures used to carry out the study. Lastly chapters four and five will present the results and findings and subsequent discussions, conclusions and recommendations respectively.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This section presents a review of the literature related to the effects of competition on mortgage institutions in Kenya competition in the financial sector. The section is organized or structured according to the research questions or specific objectives which include competition and market share, cost efficiency and competition and product and service innovation in order to ensure relevance to the research problem.

2.2 Effects of Competition on Market Share

The relationship between competition and increase in market share by financial institutions is not clear (Sathye, 2002). On the one hand, a decrease of monopoly rents and market shares associated with increased competition force financial institutions to expand their market base and explore new markets and new client base, implying an increase of in market coverage (Fernandez de Guevara et al., 2005). On the other hand, however, if increased competition is associated with rising defaults and falling profits financial institutions may engage in more cautious market expansion while extending loans only to borrowers they consider safe and cost effective. This may reduce market penetration, as lending to new and unexplored markets is generally considered to be more risky and costly (Maudos & Fernandez de Guevara, 2004).

Increased competition may lead to concentration with firms merging and consolidating their market share so to a large market share and the resultant economic activity control of economic activity by large firms (Sathye, 2002). The increase in market share could be due to considerable size enlargement of the financial institutions and/or considerable size reduction of the non-dominant firm(s). Conversely, reduction in concentration levels could be due to considerable size reduction of the dominant firm(s) and/or considerable size enlargement of the non-dominant firm(s) (Athanasoglou et al., 2005).

Greater concentration causes a less competitive bank to lose its market and leads to lesser profitability. According to this, competition can be measured by concentration indices
such as the market share of the five largest banks. In several empirical studies Lerner index has been used to measure banking competition (Angelini & Cetorelli, 2003).

The increase in market share due to mergers and acquisitions always raise concentration levels in the market and result into considerable size enlargement of the dominant firm(s) and/or considerable size reduction of the non-dominant firm(s). Conversely, reduction in concentration levels could be due to considerable size reduction of the dominant firm(s) and/or considerable size enlargement of the non-dominant firm(s) (Athanasoglou et al., 2005).

Economies of scale drive bank mergers and acquisitions (increasing concentration), so that increased concentration goes hand-in-hand with efficiency improvements (Demirgüç-Kunt & Levine, 2000).

2.2.1 Determinants of Market Share Competition

According to Bikker and Spierdijk, (2008) factors driving competition can be considered using three types of approaches: market structure and associated indicators; contestability and regulatory indicators to gauge contestability; and formal competition measures. Much attention in policy context and empirical tests is given to market structure and the actual degree of entry and exit in particular markets as determining the degree of competition. The general Structure- Conduct-Performance (SCP) paradigm, made links between structure and performance. Structure refers to market structure defined mainly by the concentration in the market. Conduct refers to the behavior of firms—competitive or collusive—in various dimensions (pricing, R&D, advertising, production, choice of technology, entry barriers, and predation). Performance refers to (social) efficiency, mainly defined by extent of market power, with greater market power implying lower efficiency.

The paradigm was based on the hypotheses that structure influences conduct (lower concentration leads to more competitive the behavior of firms); conduct influences Performance (more competitive behavior leads to less market power and greater social efficiency). Structure therefore influences performance (lower concentration leads to lower market power).
2.2.2 Effects of Competition on Demand and Supply

Increased competition may trigger an increase in service and product supply in the market. Research has shown that increased product and service supply to the market may lead to multiple uptake of organization products and services by clients, resulting in increase in market share and an increase in market loan repayment rates (McIntosh & Wydick, 2005). Moreover, increased competition may also put pressure on financial institutions to increase output and lower costs, which may lead them to relax lending and client selection standards and reduce costly monitoring and screening procedures with the intention of increasing market coverage and this in turn may increase its market share. However, there might be a negative association between increased competition and market performance due to increased market participants and availability of alternative products (Rosenberg, 2010).

2.2.3 Competition and Contestability Theory

Competition and contestability theory suggests that market structure and actual degree of entry or exit are not necessarily the most important factors in determining competition. The degree of contestability, that is, the degree of absence of entry and exit barriers, rather than actual entry, matters for competitiveness (Baumol, Panzar and Willig 1982). Contestable markets are characterized by operating under the threat of entry. If a firm in a market with no entry or exit barriers raises its prices above marginal cost and begins to earn abnormal profits, potential rivals will enter the market to take advantage of these profits. When the incumbent firm(s) responds by returning prices to levels consistent with normal profits, the new firms will exit. In this manner, even a single-firm market can show highly competitive behavior.

The theory has also drawn attention to the fact that there are several sets of conditions that can yield competitive outcomes, with competitive outcomes possible even in concentrated systems since it does not mean that the firm is harming consumers by earning supernormal profits. On the other hand, collusive actions can be sustained even in the presence of many firms.

The applicability of the contestability theory to specific situations can vary, however, particularly as there are very few markets which are completely free of sunk costs and
entry and exit barriers. Financial sector specific theory adds to this some specific considerations. While the threat of entry or exit can also be an important determinant of the behavior of financial market participants, issues such as information asymmetries, investment in relationships, the role of technology, networks, prudential concerns, and other factors can matter as well for determining the effective degree of competition (Bikker & Spierdijk, 2008).

2.2.4 Effects of Competition on Market Share
Rivalry among existing competitors takes the familiar form of jockeying for position using tactics like price competition, advertising battles, product introductions and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. In most industries, competitive moves by one firm have noticeable effects on its competitors and thus may incite retaliation or efforts to counter the move, that is, firms are mutually dependent. This pattern of action and reaction may or may not leave the initiating firm and the industry as a whole better off. If moves and counter moves escalate, then all firms in the industry may suffer and be worse off than before. Some forms of competition, notably price competition are highly unstable and quite likely to leave the entire industry worse off from the standpoint of profitability. Price cuts are easily and quickly matched by rivals, and once matched they lower revenues for all firms unless industry price elasticity of demand is high enough.

When firms are numerous, the likelihood of mavericks is great and some firms may habitually believe they can make moves without being noticed. Even where firms are relatively few, if they are relatively balanced in terms of size and perceived resources, it creates instability because they may be prone to fight each other and have the resources for sustained and vigorous retaliation. Slow industry growth turns competition into a market share game for firms seeking expansion. Market share competition is a great deal more volatile than is the situation in which rapid industry growth insures that firms can improve results just by keeping up with the industry, and where all their financial and managerial resources may be consumed by expanding with the industry (Michael Porter, 2008).
“Banking is vital to a healthy economy. Banks are not.” This is the message that a banking expert delivered to a group of his peers. Needless to say, the days when banking was considered a dead end career, but one that offered stable employment are long gone. Perhaps banking best exemplifies the changes that are taking place as service organizations strive to become practitioners of the marketing concept buy or be bought which is the new watchword in the banking industry, which is experiencing the biggest wave of consolidation in its history. Competition between banks and other financial institutions will continue to intensify. The survivors will be those that have mastered the art of services marketing (Donnelly & Peter, 2009).

The first fundamental determinant of a firm’s profitability is the industry attractiveness. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry’s attractiveness. The ultimate aim of competitive strategy is to cope with and ideally to change those rules in the firm’s favor. In any industry whether it is domestic or international or produces a product or a service, the rules of competition are embodied in five competitive forces; the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and rivalry among existing competitors. The collective strength of these five forces determines the ability of the firms in an industry to earn on average rates of return in excess of cost of capital (Michael Porter, 2008).

To find the most potent symbol of distress in contemporary business management, you do not need to comb through the testimony of a high profile fraud trial. Instead you could examine photographs of some middle aged executives from Michigan to find a small fashion accessory; an embossed lapel pin shaped as the number twenty nine. Senior executives at General Motors did not wear these pins to commemorate an anniversary, an engine size or the number of new model launches. The pin underscored their commitment to a performance target in the highly competitive North American market. General motors wanted a North American market share of twenty nine percent and focused all of its resources to achieve it. When the company fell short of the target, some managers continued to wear the pin anyway. For decades, managers have heard incessantly from their colleagues, superiors, professors and pundits that their salvation lies in pursuing and preserving high market share. Consequently they built every aspect of their organization,
from strategy to and sales to marketing and manufacturing to achieve this goal. Training sessions, incentive systems and war stories from other industries helped strengthen their resolve (Frank Luby et al., 2006).

Globalization is a word that has been used to describe, explain and forecast just about every major change in society in the past few decades. To make this term a useful one, it needs to be pared down to the core idea which is the emergence of a single world market for labor, capital, goods and services. By globalization, I mean the changes in the international economy and in domestic economies that are moving towards creating a one world market. If the world really had a single global market, wages for the same work would be the same around the earth; interest rates, allowing for different levels of risk would be the same and the price of a product or service would be identical no matter where it was purchased. By any tests applied, however, the world is still far from such a situation and likely such an endpoint will never be reached. A more concrete definition of globalization then is the acceleration of the processes in the international economy and in domestic economies that operate toward unifying world markets (Berger, 2006).

Too often in their obsession with being competitive, businesses slug it out on cost and quality. With globalization, competing on a cost basis is becoming less and less attractive (Merill, 2008) The rash of domestic and cross-border mergers and acquisitions in recent years has certainly increased competition in some industries. Does it follow that greater concentration means less competition? Not necessarily. For a start, the growing importance of product differentiation means that as consumer demand for variety grows with per capita income, monopolistic competition will increase even in sectors where there are many firms (Ramkishen Rajan, 2003).

When a competitor threatens your position by offering lower prices or by offering slightly better products at the same price as yours, and you feel that attempt to gain market share is unwarranted, you need to respond quickly and resolutely. Restraint is a viable option, and often the wisest. Control your aggression by suppressing the urge to hit back every single time you lose a piece of business. You will face a dilemma in the truest sense of word. You need to choose between two seemingly unattractive alternatives; attack by cutting prices and risking a price war or defend yourself by stressing the value you provide at the
risk of losing market share to a competitor with lower prices. The latter option, which we usually recommend, demands that you find a true point of differentiation (Frank Luby et al., 2006).

### 2.3 Effects of cost efficiency on mortgage finance

Efficiency is a concept which indicates the ability to transform inputs into outputs according to a given production process. Efficiency makes it then possible to appreciate the performances as well as the potential of development of an entity and to locate it compared to its competitors (Evanoff & Örs, 2002). Cost efficiency measures how close a bank’s cost is to what a best practice bank’s cost would be for producing the same bundle of outputs. It provides information on wastes in the production process and on the optimality of the chosen mix of inputs (Schaeck & Čihak, 2008).

Competition is generally considered a positive force in most industries supposed to foster efficiency and stimulate innovation (Casu & Girardone, 2009). By reducing monopoly rents and cost inefficiencies, favoring the reduction of loan rates and then accelerating investment, banking competition is expected to result into organization growth (McIntosh & Wydick, 2005). Competition forces banks to minimize costs, offer services at lower prices, and at the same time forces them to increase profits, for instance through shifts in outputs (Vander, 2002). Efficient banks (those with superior management and production technologies that translate into higher profits) will increase in size and market share at the expense of less efficient banks (Weill, 2004).

#### 2.3.1 Effects of competition on cost efficiency

In his explanation of why inefficiencies inside firms (X-inefficiencies) exist, and why they are reduced by the degree of competition in product markets Leibenstein (2004) indicated that X-inefficiencies results from the existence of imperfections in the internal organization of firms: those imperfections have an impact on the level of information asymmetries between owners and managers. Indeed, the incompleteness of labor contracts makes the effort of managers at least partially discretionary. The discretionary share of the effort would not be the source of any problem if the owners would have means to control firm performance. But the production function is not known entirely. Therefore, owners cannot check the level of effort exerted by managers.
Leibenstein (2004) then considers that the main determinant of the reduction of inefficiencies is the increase of competitive pressures for two reasons. First, competition provides incentives to managers to exert a higher effort. As they are aware of the increase of competition, managers have to improve their performance unless their firm leaves the market. Thus, managers are motivated by their will to avoid the personal costs of bankruptcy. Second, a higher number of firms on the market improve the possibilities for owners to assess firm performance, relative to other firms. They acquire in this way a better knowledge about the production function of the firm. Owners are then able to make a better assessment of managerial performance and consequently to proceed to changes in management if necessary. Being informed about the comparative possibilities of competition, managers are inclined to exert a higher effort.

In his study Demsetz (1973) asserted a negative link between competition and cost efficiency. His study provides evidence suggesting that the best-managed firms have the lowest costs and consequently the largest market shares leading to a higher level of concentration. Demsetz’s (1973) viewpoint thus provides further support to the argument that efficiency determines competition.

2.3.2 Implementation of Cost Efficiency

Competition reduces these inefficiencies in two ways. First, it provides incentives for managers to exert more effort to avoid the personal costs of bankruptcy. Second, a greater degree of competition provides owners with better knowledge to assess the performance of their firm (and managers) relative to other firms (Andries, 2011). Following Leibenstein’s work, some papers have proposed a formalization of his ideas (Hart, 1983; Scharfstein, 1988).

The “efficient-structure” hypothesis, proposed by Demsetz (1973), predicts that cost efficiency reduces competition. Here, the best-managed firms have the lowest costs and consequently the largest market shares. According to Demsetz (1973) an increase in competition produces increases in profit efficiency. For instance, an exogenous shock that forces banks to minimize costs, offer services at lower prices and at the same time forces them to increase profits may lead to higher market concentration. Indeed, efficient banks with superior production and technologies management that translate into higher profits
will increase in size and market share at the expense of less efficient banks (Vander, 2002). Another line of thought focuses on the pertinence of screening and monitoring in explaining this positive relationship.

In particular, Petersen and Rajan (1995) provides support to the argument that institutions exposed to more intensive competition, use more sophisticated screening and monitoring procedures whereas banks in monopolistic markets spend less on monitoring. This argument is supported by Chen’s (2007) study arguing that competitive banks have better screening and monitoring procedures and are therefore, less likely to suffer from nonperforming loans and therefore will be more efficient. According to Diamond’s (1984), the specificities of the banking industry show a negative causal relationship between competition and cost efficiency. Three main arguments support this thought. First, higher competition is likely to be associated with shorter and less stable customers’ banks relationships (Boot & Schmeits, 2005) as customers’ willingness to switch to other banks increases in more competitive environments. This phenomenon may amplify information asymmetries that require additional resources for screening and monitoring borrowers decreasing by the same way banking efficiency. Second, since banks can expect less stable customers-banks relationships in a competitive environment, they are likely to reduce relationship-building activities, which hinder the value of information (Chan, Greenbaum, & Thakor, 1986).

2.3.3 Influence of cost efficiency on Mortgage Institutions

Thirdly, taken together, the above two arguments suggest a reduction in the information’ proprietary value held by banks, leading to greater expenses in retaining old and attracting new customers through aggressive marketing strategies which will cause an adverse effect on bank efficiency (Casu & Girardone, 2006). By increasing the number of competitors on a banking market, competition can increase costs to the lender seeking to maintain economies of scale in the face of customer relationships of shorter duration. As a consequence, competition hampers the cost efficiency of banks (Lang, 1996).

The potential movement of customers should help generate the best terms for customers and should lead banks to adopt more efficient processes, to keep costs to the minimum and to be more successful in the competition for consumers (Schaeck & Čihak, 2008).
However, competition may increase monitoring costs because of the existence of scale economies, and of potential reduction of the length of the customer relationship, further decreasing cost efficiency of banks (Boot & Schmeits, 2005).

### 2.3.4 Decline in Bank Efficiency

There are several reasons for why competition leads to a decline in bank efficiency. First, higher competition is likely to be associated with less stable, shorter relationships between customers and banks as customers’ propensity to switch to other providers increases in more competitive environments (Boot & Schmeits, 2005).

This phenomenon will amplify information asymmetries that require additional resources for screening and monitoring borrowers. Second, since banks can expect a shorter duration of bank relationships in a competitive environment, they are likely to reduce relationship-building activities, which inhibit the reusability and value of information (Evanoff & Örs (2002).

In principle, increased competition puts pressure on financial institutions to become cost efficient. With increased competition, financial institutions need to find ways of delivering services at lower costs to ensure them a competitive edge (Amel, Barnes, Panetta & Salleo, 2004). Yet, competition may also lead to higher costs. First, as argued above, competition may result in borrower over-indebtedness, lower repayment performance and increased default rates. Lower levels of repayments and increased default rates add to the costs financial institutions’ lending activities. Second, with increased competition in the market for financial institutions may also not only have to compete for clients and market shares, but also for capital and labour inputs. Thus, interest rates at which they borrow money and loan officer salaries may rise, leading to higher costs (Williams, 2004).

### 2.4 Effects of Product and Service Innovation on Mortgage Finance

Increased competition among financial institutions is often associated with falling profit rates as a result of non-performance of the company products and services due to them becoming non innovative (Cetindamar & Ulusoy, 2008).

As financial institutions come under competitive pressure, leading to declining market shares and monopoly rents, they are expected to report lower profit rates, to the point
where its products and services are no longer attractive for the current and potential customers (Gebauer et al., 2011).

Innovation can be defined as the application of new ideas to the products, processes, or other aspects of the activities of a firm that lead to increased value (Ottenbacher, 2007). This value is defined in a broad way to include higher value added for the firm and also benefits to consumers or other firms (Ren et al., 2010). Innovation may also involve the introduction of a new product, or a significant qualitative change in an existing product and the introduction of a new process for making or delivering goods and services. Product innovations may be tangible manufactured goods, intangible services, or a combination of the two and is an element of novelty (Cetindamar & Ulusoy, 2008).

**2.4.1 Effects of Innovation Differentiation Advantage on mortgage finance**

Innovation can take the form of a new service or product, a new structure, a new production process, or a new administrative system (Bilgihan et al., 2011). Innovation differentiation advantage arises when a firm creates the most up-to-date and attractive products by leading competitors in efficiency, quality, style, and design innovations (Miller, 1988). A customer oriented firm can anticipate its customers' changing needs and respond to them through continuous innovation from its external focus on collecting, analyzing, and disseminating information about customers (Zhou et al., 2009). The competitors and customers of an innovative company perceive the company as being able to utilize the latest technology and introduce new goods or services at an early stage (Gebauer et al., 2011).

Tidd, Bessant, and Pavitt (2005) assert that service and product innovation management directly and positively influence the improvement of business performance and growth through improvements in effectiveness, productivity, quality, competitive positioning, and market share.

However, attracting new consumers, open new market, increase market share, consumer retention, consumer satisfaction, new product development, and delivery process improvement significantly depends on the innovation.
The success of innovation in the financial institutions depends on the company’s efforts and investments in management through connecting the innovation solution to the market and gain competitive advantage (Gunday, Ulusoy, Kilic, & Alpkan, 2011). In a competitive market, financial institutions may tend to offer innovative products (goods and services) to triumph over the competition and later co-create value (Lin, Wang, & Yu, 2010). Offering innovative products in financial sector are an effective business strategy to strive for cost reduction, improve the performance, productivity, and growth (Tidd & Bessant, 2009). However, the growth and performance of any financial institution are related to the well managing of innovation (Jiménez-Jiménez & Sanz-Valle, 2011).

The importance of product and service innovation on the performance of financial institutions is critical. Organizations having a culture of proactive initiatives towards change generate higher performance.

According to Naranjo-Valencia, Jiménez-Jiménez, and Sanz-Valle (2011), to facilitate the implication of innovation successfully, organizations adjust its internal behavior through setting up external relation, which actually demonstrate the organizational culture. However, to what extent the practice of service product innovation management enhances the level of market performance is important to individual financial institutions.

### 2.4.2 Effects of Innovation as a Competitive Tool

According to Kim and Mauborgne (2005), blue oceans denote all the industries not in existence today. This is known as the unknown market space. In red oceans, industry boundaries are defined and accepted and competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities and cut throat competition turns the ocean bloody.

Blue oceans on the other hand are defined by untapped market space, demand creation and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding industry boundaries. It will always be important to swim successfully in the red ocean by outcompeting rivals. Red oceans will always matter and will always be a fact of business life. But with supply exceeding demand in more industries, competing for a share
of contracting markets while necessary will not be enough to sustain high performance. Companies need to go beyond competing to seize new profit and growth opportunities; they also need to create blue oceans. Companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things. They perceive a new basis for competing or find better means of competing in old ways. Innovation can be manifested in a new product design, a new production process, a new marketing approach or a new way of conducting training.

Much innovation is mundane and incremental, depending more on an accumulation of small insights and advances than a single, major technological breakthrough. It often involves ideas that are not new, ideas that have been around, but never vigorously pursued. It always involves investments in skill and knowledge, as well as physical assets and brand reputations. Some innovations create competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored. When competitors are slow to respond, such innovations yield competitive advantage. For instance, in industries such as autos and home electronics, Japanese companies gained their initial advantage by emphasizing smaller, more compact, lower capacity models that foreign competitors disdained as less profitable, less important and less attractive (Michael Porter, 2008).

The success of European banks’ retail business depends strongly on how the banks adapt to provide products and services that meet the demands of a rapidly growing population. It is also being influenced by the way in which banks adapt to new technology.

There is also evidence that various products, such as consumer loans, mortgage products and life insurance lend themselves more readily to different distribution channels, so by providing a multi-channel platform customers can be offered a more tailored and cost efficient service dependent on their needs. (Barbara Casu et al., 2006).

Central to Financial Institutions decision making processes is the cost of inputs, or factors used to produce services both on and off the balance sheet. Two important factors are labour and capital. Crucial to the efficient management and combination of these inputs is technology. Technological innovation has been a major concern of Financial Institutions
in the recent years. Internet and wireless communications and technologies are having a profound effect on financial services. These technologies are more than just new distribution channels, they are a completely different way of providing financial services. Indeed, a global financial service such as Citigroup has operations in more than 100 countries connected in real-time by a proprietary owned satellite system. (Saunders and Cornett, 2011).

2.4.3 Effects of Sustainable Management of Service and Product Innovation

There is a great deal about innovation and its effect on the firm’s performance in the banking sector (Gunday et al., 2011; Kirner, Kinkel, & Jaeger, 2009; Lin et al., 2010). However, the evidence proves that the application of innovation management within the financial industry affects the firm’s overall performance significantly (Jiménez-Jiménez & Sanz-Valle, 2011; Sin, Tse, Heung, & Yim, 2005). If the firms are highly focused on service and product innovation, they are more successful in new product and service offering which result greater performance improvement (Eisingerich, Rubera, & Seifert, 2009) and competitive advantages (Chapman, Soosay, & Kandampully, 2003).

According to Kirner, Kinkel, and Jaeger, (2009) note that service and product innovation management will directly and positively influence the improvement of business performance and growth through improvements in effectiveness, productivity, quality, competitive positioning, and market share (Tidd, Bessant, & Pavitt, 2005).

However, product and service innovations attract new consumers, open new markets, increase market share, ensures consumer retention, consumer satisfaction, new product development and delivery process improvement (Armbruster, Bikfalvi, Kinkel, & Lay, 2008).

In order to distinguish a bank from its competitors, technology provides a competitive marketing tool, and to be the most preferred bank for a certain given market segment are through the development of marketing mix strategy (Akdag and Zineldin, 2011). Such as, good services, effective processes, qualified stuff members, convenient locations, customized and personal solution, which does not imply most up-to-date service. Most banks provide 24-hour banking, SMS banking, mobile banking and internet banking for their customers.
In addition, a company’s tacit knowledge and the experience of public relations that a company accumulates over a long period of time are both difficult resources for competitors to imitate (Ren et al., 2010).

Innovativeness is one of the fundamental instruments of growth strategies for firms to enter new markets, to increase the existing market share and to provide the firm with a competitive advantage (Günday et al., 2011). Innovation–performance relationship is context dependent and factors such as the type of innovation, the cultural context, and age of the firm affect the impact of innovation on organizational performance to a large extent (Rosenbusch et al., 2011). It is proposed by Han et al. (1998) that a market-oriented firm is likely to be innovative, which, in turn, leads to superior performance achievement (Jiménez-Jiménez and Sanz-Valle, 2011).

Strategic management is concerned with creating a sustainable competitive advantage for an organization compared with its rivals. This arises when an organization has an advantage in competing with its rivals which enables it to earn returns on investment which are higher than the average for the sector. This involves every aspect of the way an organization competes in the market place, including product range, price, manufacturing quality, service levels and so on. However some of these factors are easily imitated.

Price for example can be changed very rapidly so that a price which provides an advantage for a company at one time may last a very short time. In order to be sustainable, competitive advantage needs to be difficult to imitate and it needs to be deeply embedded in the organization (Hannagan Tim, 2001).

Corporate strategy must address questions about the direction, values and scope of the business as a whole and how it intends to operate. Corporate strategy seeks to create value beyond the sum of the individual parts. It is thus concerned with corporate advantage much as business strategies are concerned with competitive advantage. In practice, corporate strategies are sensitive to demands of financial markets. These can at times distort the logic of strategic management. Ideas about how to set corporate strategy effectively have developed over the years but there is no universal theory or analytical framework that will generate an effective strategy. Rather, conviction about the right
answers to the questions will evolve within a particular context from a combination of analysis, discussion and instincts (Macmillan & Tampoe, 2000).

A company’s choice of corporate strategy is partly a legacy of its past. If its business units are in unattractive industries, the company must start from scratch. If the company has few truly proprietary skills or activities it can share in related diversification, then its initial diversification must rely on other concepts. Yet corporate strategy should not be a once-and-for-all choice but a vision that can evolve. A company should choose its long term preferred concept and then proceed pragmatically toward it from a starting point (Michael Porter, 2008).

According to Koch (2000), a second and related technique to consider opportunities for strategy innovation involves actively challenging the accepted industry accepted logic. Most industries have a standard definition of what their product is, which tends to be held in common by all players. The motorcycle industry manufactures motorcycles, airline industry provides travel on an airplane, soap manufacturers manufacture soap. Thinking beyond the traditional industry boundaries, often deeply embedded as the assumed limits to the firm’s activities may expose opportunities for strategy innovation.

Similarly consideration of the products and services which compliment your own offering can highlight opportunities. For example the purchase of an automobile is complicated by insurance, ongoing maintenance and frequently a finance package. The key questions to ask is; are these complimentary services that can be rolled in to give their customer a more total solution?

In essence the job of the strategist is to understand and cope with competition. Often, however, managers define competition too narrowly, as if it occurred only among today’s direct competitors. Yet competition for profits goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants and substitute products. The extended rivalry that results from all five forces defines an industry’s structure and shapes the nature of competitive interaction within an industry (Michael Porter, 2008).
A great deal of time can be wasted on trying to get precise and definite answers to strategic issues. Very often the worst result is not the waste of time but exhaustion or impatience on the part of the participants, leading them to throw out strategic thinking as being too academic, wearisome or anti-action. The answer to this syndrome is progressive approximation. The basic point is that you should come up with your best initial answers very quickly and then decide whether it is worth the time and effort to improve on it by gathering data and analysis. This is actually the way nearly all managers and others generally behave as they go about their daily lives and see no reason why strategy development should be an exception. The process of progressive approximation will give you a quicker, cheaper and probably better answer than conventional methods, but the key benefit is that the new strategy will be implemented more quickly and effectively (Koch, 2000).

2.5 Chapter Summary
The chapter covered the theories that underlie the effects of competition on mortgage institutions in Kenya competition in the financial sector. The chapter discusses the study variables such as competition and market share, cost efficiency and competition and product and service innovation. The chapter also highlighted previous research that has looked at the study variables pertaining to market share, cost efficiency and product and service innovation.

The next chapter (chapter three) will focus on the research methodology which contains the procedures and methods used to collect and analyze (obtain and process) data. The chapter will look at study area, study design, target and study populations, sampling frame & techniques, research instruments, ethical considerations, data collection, data quality control, data management and analysis.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter will cover research design, target population, sampling and sample size, data collection methods and instruments, validity of research instruments, reliability of research instruments, data analysis, ethical consideration and operationalization of variables.

3.2 Research Design
The study adopted a descriptive design which was suitable in situations where questions such as how, why and what were investigated on a certain phenomenon to give facts of the situation as it were, without interference by the researcher (Kothari, 2004). The design was considered appropriate because it sought without bias to establish factors associated with certain occurrences, outcomes, conditions or types of behavior and in this case the effects of competition on mortgage institutions.

3.3 Population and Sampling

3.3.1 Population
The term population is commonly used to refer to the group of people or entities (the universe) to which the findings of the sample are to be generalized (Cooper & Schindler, 2000). Target population refers to the entire group of individuals or objects in which the researcher is interested in to generalize his conclusions (Kothari, 2004). The study population was drawn from all financial institutions offering home ownership solutions through mortgage finance with the target population being Housing Finance Company of Kenya.

3.3.2 Sampling Design and Sample Size
Sampling design is a working plan or structure, which specifies the population frame, sample size and sample selection and how the sample size is estimated. The aim of the sampling design is to identify the characteristic of the population (Kombo & Tromp, 2006). According to Trochim (2005), Sampling is the process of selecting units (people,
organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen.

3.3.2.1 Sampling Frame
Denscombe (2007) defines a sample frame as an objective list of the population from which the researcher can make his or her selection. The sampling frame for this study was obtained from the Housing Finance Company of Kenya staff list consisting of three hundred and fifty four staff (354).

3.3.2.2 Sampling Technique
Sampling technique is the procedure a researcher uses to gather people, places or things to study (Orodho & Kombo, 2002). And in this case it refers to the procedure the researcher uses to select the final sample to study. A sample is part of the target (or accessible) population that has been procedurally selected to represent it and whose properties are studied to gain information about the whole. The study used stratified sampling procedure which targeted various staff at different ranks in the company as a sample.

3.3.2.3 Sample Size
The study used stratified sampling procedure which involved the use of a sample size of forty three staff (43) as indicated on table 3.1 below.

Table: 3. 1 Sample Size

<table>
<thead>
<tr>
<th>Study Units</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Manager</td>
<td>3</td>
<td>6.9</td>
</tr>
<tr>
<td>Sales Manager</td>
<td>2</td>
<td>4.7</td>
</tr>
<tr>
<td>Marketing Staff</td>
<td>10</td>
<td>23.3</td>
</tr>
<tr>
<td>Sales Staff</td>
<td>16</td>
<td>37.2</td>
</tr>
<tr>
<td>Credit Staff</td>
<td>12</td>
<td>27.9</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>43</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

3.4.1 Data collection sources
Data is anything given or admitted as a fact on which a research inference will be based, (Oso & Onen, 2009). Both primary and secondary data will be collected. Primary data was collected through the use of a questionnaire, while Secondary data was collected through reviewing records of the study relevant to the subject.

3.4.2 Data collection Instruments
A self-completion questionnaire, involving both open-ended and closed-ended questions items, was the main instrument for gathering the study’s data. Open-ended questions focused on giving in-depth answers providing more details on the study aspects, while closed-ended questions were meant to keep the respondents on track and to the point. According to Cooper and Emory (2008), a self-completion questionnaire is convenient as respondents could fill them during free times or when workloads are manageable besides it is cheaper and quicker to administer.

The questionnaire contained demographic factors in the initial part, while the main body of the questionnaire focused on the effects of competition on mortgage institutions in Kenya; hence they focused on 1) market share, 2) cost of efficiency 3) and product and service innovation. Within each of these areas, each respondent was asked to rate or rank on a scale on 1 (agree) (2) strongly agree (3) neither Agree nor Disagree (4) Disagree (5) Strongly Disagree on the contribution of the various aspects of the identified factors. The questionnaire was self-administered.

3.4.3 Reliability and Validity
To achieve content validity, questionnaires mainly consisted of questions on the variables. Content validity was further ensured by consistency in administering the questionnaires. A measure of reliability and validity was also guaranteed by discussion of the instrument with experts and research supervisor and by ensuring high precision and minimal errors in the data entry through training of the research assistants.
To further strengthen the reliability and validity measures a pilot study was conducted in order to ascertain and detect any ambiguities, questions that would not have been easily understood or poorly constructed and even those that would have been irrelevant. The pilot study was conducted on seven respondents from the target population who would not be included in the final sample. The questionnaires were administered to the group and thereafter the feedback was obtained through debriefing them individually and comparing the results. The results of the pilot study were analyzed using Cronbach alphas with a set lower limit of acceptability of 0.7. From the responses, comments and results of the analysis, the entire questionnaire was refined and improved to take care of the observed shortcomings.

3.5 Research Procedures
The researcher administered questionnaires containing mainly closed ended questions to the sample respondents. Hence each respondent received the same set of questions in exactly the same way. The researcher organized with the respondents for a convenient time and place so as to allow both the respondent and the researcher the opportunity to create rapport and facilitate the process of questionnaire administration in a relaxed atmosphere. During the meeting it was made clear in the introduction the purpose of the research. It was clarified the purpose was academic and that they would not experience any negative effects for contributing to the research. Secondary data was also sourced to supplement the primary data. This was be collected from the relevant sources which include reports, newsletter and unpublished data.

3.6 Data Analysis and Presentation
Quantitative data was collected using closed ended questions in the questionnaires, it was chronologically arranged with respect to the questionnaire outline to ensure that the correct code was entered for the correct variable. Data cleaning was then done and tabulated. The tabulated data was be analyzed with the aid of Statistical Package for Social Sciences (SPSS 21.0) which generated both descriptive statistics such percentages, mean and mode where applicable and inferential statistics such as regression and correlation. Qualitative data was organized into a checklist which was clustered along the variables of the research study to ease consolidation of information and interpretation and then analyzed through content analysis.
The purpose of presentation of data was to highlight the results and to make data or results more illustrative by presenting them in the form of figures and tables so that it was easy to observe general trends. Thus presentation of data was in form of tables, pie-charts and bar graphs only where it provides successful interpretation of the findings. Descriptive data will be provided in form of explanatory notes.

3.7 Chapter Summary
The study used descriptive survey approach in collecting data from the respondents because it saves time, expenses and the amount of quality information yielded is valid, while interviewer bias is reduced because participants complete identically worded self-reported measures. The target sample consisted of forty three (43) respondents drawn from Housing Finance Company of Kenya staff. The study used stratified sampling procedure to select a study sample. The primary data for the study was collected using the questionnaires and complemented by desk research. Quantitative data was analyzed using the regression model with the aid of Statistical Package for Social Sciences (SPSS21.0), while qualitative data was analyzed through content analysis.

The next chapter (Chapter Four) will consist of analyzed data based on the research objectives and questionnaire items pertaining to effects of competition on market share, cost efficiency and product and service innovation of mortgage institutions: using statistical tools like descriptive and regression and presented using frequency tables and graphs.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
The data analysis was based on the main objective of the study which was to examine the effects of competition on performance of mortgage institutions in Kenya; based on the specific objectives of the study which included the effects of market share, cost efficiency and product and service innovation on performance of mortgage finance institutions which were analyzed using descriptive, correlation and regression statistics and results presented using charts, frequency distribution tables and graphs.

4.2 General Information

4.2.1 Response Rate
Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>What is the Response Rate?</td>
<td>Responded</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Did not respond</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>43</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)

The above table 4.1 shows the total number of the people who responded and those who did not respond. The total number of questionnaires that were distributed to the field was forty three (43) but thirty five (35) questionnaires were returned which represented 81.4% while eight (8) questionnaires which represent 18.6% were not returned. From table 4.1 and figure 4.1 it can be inferred that there was good response rate.

According to Mugenda and Mugenda (2003) states that a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population.
4.2.2 Characteristics of Sample Population

4.2.2.1 Gender of Respondents
Total number of males who responded was twenty five (20) representing 57.1% of total respondents while females were eighteen (10) representing 42.9%. From figure 4.2 below it can be concluded that the majority of respondents were males.

![Gender Distribution](image)

**Figure 4.2: Distribution of Gender**

*Source: (Research Data, 2014)*

4.2.2.2 Age Bracket

The study sought to find out the age bracket of the respondents; (34.3%) of the respondents were in the age range of 20-30 years; those in the age range between 31-40 years had a percentage of 28.6%.

Those between the ages of 40-50 were 22.9%, while 14.2% of the respondents were over 50 years and above. From the study, it can be concluded that majority of the respondents were between the ages of 20-30 years as shown on table 4.3 below.
Table 4.3: Frequency Distribution of Age Bracket of Respondents

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>What is your age bracket</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-30 yrs</td>
<td>12</td>
<td>34.3</td>
</tr>
<tr>
<td>31-40 yrs</td>
<td>10</td>
<td>28.6</td>
</tr>
<tr>
<td>41-50 yrs</td>
<td>8</td>
<td>22.9</td>
</tr>
<tr>
<td>51 +yrs</td>
<td>5</td>
<td>14.2</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)

4.2.2.3 Highest Level of Education

The study sought to establish the educational level of the interviewed respondents. 5.7% of the respondents had acquired Certificate level education 25.7% had attained diploma qualification, 54.3% had a degree while 14.3% respondents had attained masters degree qualification. This shows that all the respondents who were interviewed had basic education and would understand and explain issues related to mortgage institutions as shown on table 4.4.

Table 4.4: Frequency Distribution of Level of Education of Respondents

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>What is your highest level of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>College Certificate</td>
<td>2</td>
<td>5.7</td>
</tr>
<tr>
<td>Diploma</td>
<td>9</td>
<td>25.7</td>
</tr>
<tr>
<td>Degree</td>
<td>19</td>
<td>54.3</td>
</tr>
<tr>
<td>Masters</td>
<td>5</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)
4.2.2.4 Position in the Organization
The study below shows the response the respondent’s positions in the organization. 2.9% and 5.7% indicated they were credit managers and Sales managers respectively; while 25.7% and 28.6% indicated they were staff, i.e. Marketing and Credit staff respectively. Lastly 37.1% indicated that they were Sales staff. From table 4.5 it can be inferred that the respondents were well distributed among the various categories as shown in table 4.5.

Table 4.5 Frequency Distribution of Respondents Position in the Organization

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is your position in the organization</td>
<td>Credit Manager</td>
<td>1 2.9</td>
</tr>
<tr>
<td></td>
<td>Sales manager</td>
<td>2 5.7</td>
</tr>
<tr>
<td></td>
<td>Marketing staff</td>
<td>9 25.7</td>
</tr>
<tr>
<td></td>
<td>Credit staff</td>
<td>10 28.6</td>
</tr>
<tr>
<td></td>
<td>Sales Staff</td>
<td>13 37.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)

4.2.2.5 Years in the Organization
The study sought to find out the work experience of the respondents in their current position. The highest percentage of respondents had worked for a period of 0-4 years representing 31.4%. 34.3% of the respondents had worked for a period between 5-9 years while 28.6% and 5.7% of the respondents had a work experience of 10-19 years and 20+ years respectively as indicated on table 4.6.
Table 4.6 Frequency Distribution of Respondents Work Experience

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>How many Years have you been in the organization?</td>
<td>0-4 yrs</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>5-9 yrs</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>10-19 yrs</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>20 +yrs</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)

4.3 Competition and Market share

4.3.1 Effect of Competition on Market share

The study sought to find out the influence of competition on market share. From the study, majority (31.4%) strongly agreed that increased competition force mortgage institutions to expand their market base, explore new markets and client base while (45.7%) agreed that increased competition results in rising defaults and falling profits forcing mortgage institutions to engage in more cautious market expansion.

It was also observed that (34.3%) strongly agreed that competition forces mortgage institutions to minimize costs while (42.9%) agreed that competition may lead to concentration with firms merging. Majority of the respondents (54.3%) agreed that competition leads to multiple uptakes of organization products and services by clients while (54.8%) of respondents strongly agreed that competition has brought about pressure on mortgage institutions to relax lending.

Lastly (37.1%) of respondents agreed that greater concentration of financial institutions offering home loans causes less competitive mortgage institutions to lose their market share. Analysis of the responses on Statistical Package for Social Scientists (SPSS) observed that Competition forcing mortgage institutions to expand their market base, had
a mean of =2.51 and standard deviation =0.23; Rising defaults and falling profits (Mean=2.03, standard deviation =0.55); Force mortgage institutions to extend loans (mean= 2.34, standard deviation = 1.07); May lead to concentration with firms merging (Mean=2.03, standard deviation =0.55); Multiple uptakes of organization products and services by clients (Mean= 2.45, standard deviation =0.19); Pressure on mortgage institutions to relax lending (Mean=2.03, standard deviation =0.55); and Greater concentration causes less competitive mortgage institutions to lose their market (Mean=2.03, standard deviation =0.55); as tabulated on table 4.7 below.

Table 4.7 Effect of Competition on Market share

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>MEAN</th>
<th>SDEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Force mortgage institutions to expand their market base,</td>
<td>F</td>
<td>11</td>
<td>6</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>2.51</td>
</tr>
<tr>
<td>%</td>
<td>31.4</td>
<td>17.1</td>
<td>8.7</td>
<td>22.8</td>
<td>20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rising defaults and falling profits</td>
<td>F</td>
<td>3</td>
<td>16</td>
<td>4</td>
<td>10</td>
<td>2</td>
<td>2.34</td>
</tr>
<tr>
<td>%</td>
<td>8.7</td>
<td>45.7</td>
<td>11.4</td>
<td>28.5</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition forces mortgage institutions to minimize costs</td>
<td>F</td>
<td>12</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>9</td>
<td>2.03</td>
</tr>
<tr>
<td>%</td>
<td>34.3</td>
<td>20.0</td>
<td>5.6</td>
<td>14.3</td>
<td>25.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May lead to concentration with firms merging</td>
<td>F</td>
<td>3</td>
<td>15</td>
<td>1</td>
<td>12</td>
<td>4</td>
<td>2.45</td>
</tr>
<tr>
<td>%</td>
<td>8.7</td>
<td>42.9</td>
<td>2.7</td>
<td>34.3</td>
<td>11.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple uptakes of organization products and services by clients</td>
<td>F</td>
<td>7</td>
<td>19</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>2.51</td>
</tr>
<tr>
<td>%</td>
<td>20.0</td>
<td>54.3</td>
<td>5.6</td>
<td>11.4</td>
<td>8.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pressure on mortgage institutions to relax lending</td>
<td>F</td>
<td>18</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>8</td>
<td>2.45</td>
</tr>
<tr>
<td>%</td>
<td>54.8</td>
<td>5.6</td>
<td>2.7</td>
<td>14.0</td>
<td>22.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater concentration causes less competitive mortgage institutions to lose their market share</td>
<td>F</td>
<td>3</td>
<td>13</td>
<td>4</td>
<td>10</td>
<td>5</td>
<td>2.51</td>
</tr>
<tr>
<td>%</td>
<td>8.7</td>
<td>37.1</td>
<td>11.4</td>
<td>28.5</td>
<td>14.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Research Data, 2013)
4.3.2 Effects of competitive market share on the performance of mortgage Institutions

Findings of the study has as shown on figure 4.3 below indicate (74.3%) of the total respondents indicated that competitive market share influence affects mortgage institutions in Kenya; while (25.7%) of the respondents indicated that competitive market share influence does not affect mortgage institutions in Kenya. From the study it can be seen that competitive market share influence affects mortgage institutions in Kenya.

Figure 4.3: Effects of competitive market share on the performance of mortgage Institutions

Source: (Research Data, 2014)

4.3.4 Relationship between Competitive market share and Performance of mortgage institutions

The result on table 4.8 is based on the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), Alpha = .05. (95%), (df) =5, and two-tailed test. Results of the study shows: correlation coefficient (r) of .531 and the coefficient of determination ($r^2$) of .282 indicating that 28.2% of performance of mortgage institutions can be predicted by competitive market share. Since the correlation coefficient of .531 is positive it can be
concluded that the correlation is statistically significant, hence there is a positive relationship between competitive market share and performance of mortgage institutions.

Table: 4.8 Relationship between Competitive market share and Performance of mortgage institutions Correlation Model

<table>
<thead>
<tr>
<th>Market Share</th>
<th>Performance of mortgage institutions</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>r</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td></td>
<td>0.000</td>
</tr>
<tr>
<td>Market Share</td>
<td></td>
<td>.531</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of mortgage institutions

**significance level was 0.005. * 2 tailed Test

Source: (Field Data, 2014)

4.4 Effects of Cost Efficiency on mortgage finance

4.4.1 Effect of Competition on Cost Efficiency
Table 4.9 indicates that majority, (40.0%) strongly agree that competition puts pressure on mortgage institutions to become cost efficient while (48.7%) agree competition results into organization growth by reducing cost inefficiencies. The study also determined a majority of (37.1%) strongly agree that competition forces mortgage institutions to minimize costs, offer services at lower prices, and at the same time to boost volumes to increase profits. Majority of respondents (51.4%) agreed competition causes efficient mortgage institutions to increase in size and market share at the expense of less efficient mortgage institutions while (57.1%) of respondents agreed that mortgage institutions find ways of delivering services at lower costs. Lastly (34.3%) of sampled respondents agreed that competition leads to higher costs arising from borrower over-indebtedness, lower repayment performance and increased default rates.

Analysis of the responses on Statistical Package for Social Scientists (SPSS) observed that Competition pressure resulting in cost efficiency had a mean of =2.51 and standard
deviation =0.23; Is expected to result into organization growth by reducing cost inefficiencies (mean= 2.34, standard deviation = 1.07); Forces mortgage institutions to minimize costs to increase profits (Mean=2.03, standard deviation =0.55); Causes Efficient mortgage institutions to increase in size at the expense of less efficient institutions (Mean= 2.45, standard deviation = 0.19), Mortgage institutions find ways of delivering services at lower costs (Mean= 2.51, standard deviation = 0.23) while lastly competition leading to higher costs arising from borrower over-indebtedness, lower repayment performance and increased default rates had a (Mean= 2.98, standard deviation = 0.101) as tabulated on table 4.10.

Table 4.9 Effects of Competition on Cost Efficiency

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>MEAN</th>
<th>SDEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition reduces inefficiencies by providing incentives for managers to</td>
<td>F</td>
<td>14</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>2.51</td>
<td>0.23</td>
</tr>
<tr>
<td>exert more effort to avoid the personal costs of bankruptcy</td>
<td>%</td>
<td>40.0</td>
<td>14.0</td>
<td>5.7</td>
<td>20.0</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Results in organization growth by reducing cost inefficiencies,</td>
<td>F</td>
<td>6</td>
<td>17</td>
<td>1</td>
<td>9</td>
<td>2.34</td>
<td>1.07</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>17.1</td>
<td>48.7</td>
<td>2.8</td>
<td>25.7</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Forces mortgage institutions to minimize costs, offer services at lower</td>
<td>F</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>6</td>
<td>2.03</td>
<td>0.55</td>
</tr>
<tr>
<td>prices, and boost volumes to increase profits</td>
<td>%</td>
<td>37.1</td>
<td>23.0</td>
<td>2.8</td>
<td>17.1</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Efficient mortgage institutions will increase in size and market share at</td>
<td>F</td>
<td>9</td>
<td>18</td>
<td>3</td>
<td>4</td>
<td>2.45</td>
<td>0.19</td>
</tr>
<tr>
<td>the expense of less efficient mortgage institutions</td>
<td>%</td>
<td>25.7</td>
<td>51.4</td>
<td>8.6</td>
<td>11.5</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Mortgage institutions find ways of delivering services at lower costs</td>
<td>F</td>
<td>4</td>
<td>20</td>
<td>2</td>
<td>6</td>
<td>3.51</td>
<td>0.23</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>11.5</td>
<td>57.1</td>
<td>5.7</td>
<td>17.1</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Leads to higher costs arising from borrower over-indebtedness, lower</td>
<td>F</td>
<td>7</td>
<td>12</td>
<td>1</td>
<td>10</td>
<td>5.25</td>
<td>0.23</td>
</tr>
<tr>
<td>repayment performance and increased default rates.</td>
<td>%</td>
<td>20.0</td>
<td>34.3</td>
<td>2.8</td>
<td>28.6</td>
<td>14.3</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)
4.4.2 Cost Efficiency Influence on Mortgage Institutions

The study sought to find out whether cost efficiency arising from competition influences mortgage institutions in Kenya. Majority of the respondents, (91.4%) indicated that cost efficiency arising from competition does influence mortgage institutions in Kenya, while (8.6%) of the respondents pointed out that mortgage institutions in Kenya are not influenced by cost efficiency arising from competition.

From the study it can be concluded that cost efficiency arising from competition influences mortgage institutions in Kenya as shown in table 4.1 below.

**Table 4.10 Cost efficiency influence on mortgage institutions**

<table>
<thead>
<tr>
<th>Question</th>
<th>Scale</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does cost efficiency arising from competition influence mortgage institutions in Kenya?</td>
<td>Yes</td>
<td>32 91.4</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3  8.6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>35 100</td>
</tr>
</tbody>
</table>

Source: (Research Data, 2014)

4.4.4 Relationship between Cost efficiency and performance of mortgage institutions

The study sought to determine whether cost efficiency influence performance of mortgage institutions. The study on table 4.11 used a significance level (alpha) of .05 (95%), Degrees of freedom (df) of 5 and two-tailed test.

The results of the study indicated: correlation coefficient (r), = 0.617; (r2) =0.381; From the results it can be concluded that there is a relationship between cost efficiency and the performance of mortgage institutions hence cost efficiency affects performance of mortgage institutions.
Table: 4.11. Relationship between Cost efficiency and performance of mortgage institutions Correlation Model

<table>
<thead>
<tr>
<th>Cost Efficiency</th>
<th>Performance</th>
<th>r</th>
<th>r 2</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>Performance of mortgage institutions</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Cost efficiency</td>
<td>.617</td>
<td>.381</td>
<td>5</td>
<td>0.043</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of Mortgage Institutions

**significance level = 0.005. * 2 tailed Test

4.5 Effects of Product and Service Innovation on Mortgage Finance

4.5.1 Effect of Product and Service Innovation

From the study a majority of (45.7%) agreed competition is a positive force as it fosters efficiency and stimulates innovation while (48.7%) strongly agreed that mortgage institutions often come under competitive pressure because; their products and services are no longer attractive for the current and potential customers.

The study also observed (51.4%) of respondents agreed that quality of innovation is directly related to the experience of the lender (59.9%) agreed mortgage institutions attract new consumers depends on their speed of innovation.

Interestingly (34.3%) of respondents agreed less competition in the market arises from the perceptions of the institutions being able to utilize the latest technology while (37.1%) strongly agreed competitive mortgage institutions may tend to offer innovative products to subdue competition.

Lastly (42.9%) of respondents agreed offering innovative products in financial sector is an effective and competitive business strategy while (40%) agreed higher competition is associated with less stable, shorter relationships between customers and mortgage institutions due to the propensity to switch to more innovative lenders.
Analysis of the responses on Statistical Package for Social Scientists (SPSS) observed that Competition fosters efficiency and stimulates innovation, had a mean of =1.79 and standard deviation =0.968; their products and services are no longer attractive for the current and potential customers (mean= 1.70, standard deviation = 0.011)

Quality of innovation is directly related to the experience of the lender (Mean=1.89, standard deviation =.086); Attracting new consumers depends on speed of innovation (Mean=1.75, standard deviation =.054), Less competition in the market arises from the perception of the institutions (mean= 2.25; standard deviation =1.22)

Competitive mortgage institutions may tend to offer innovative products to subdue competition (Mean=1.75, standard deviation =.054), Offering innovative products in financial sector is an effective competitive business strategy (Mean=1.75, standard deviation =.054)

Lastly higher competition is associated with less stable, shorter relationships between customers and mortgage institutions due to switching to more innovative lenders (Mean=1.75, standard deviation =.054), indicating small variability of the mean as shown on table 4.12.
Table 4.12: Effect of Product and Service Innovation

<table>
<thead>
<tr>
<th>Statements</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>MEAN</th>
<th>SDEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition fosters efficiency and stimulates innovation</td>
<td>F</td>
<td>3</td>
<td>16</td>
<td>2</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>8.6</td>
<td>45.7</td>
<td>5.7</td>
<td>22.9</td>
<td>17.1</td>
</tr>
<tr>
<td>mortgage institutions often come under competitive pressure because their products and services are no longer attractive for the current and potential customers</td>
<td>F</td>
<td>17</td>
<td>5</td>
<td>1</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>48.7</td>
<td>14.3</td>
<td>2.8</td>
<td>25.7</td>
<td>14.3</td>
</tr>
<tr>
<td>quality of innovation is directly related to the experience of the lender</td>
<td>F</td>
<td>9</td>
<td>18</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>25.7</td>
<td>51.4</td>
<td>8.6</td>
<td>11.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Attracting new consumers significantly depends on the speed of innovation</td>
<td>F</td>
<td>4</td>
<td>21</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>11.5</td>
<td>59.9</td>
<td>5.7</td>
<td>14.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Perception of less competition arises when institutions utilize the latest technology for innovation</td>
<td>F</td>
<td>6</td>
<td>12</td>
<td>1</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>17.1</td>
<td>34.3</td>
<td>2.8</td>
<td>25.7</td>
<td>20.0</td>
</tr>
<tr>
<td>Competitive mortgage institutions use innovation to subdue competition</td>
<td>F</td>
<td>13</td>
<td>8</td>
<td>1</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>37.1</td>
<td>22.9</td>
<td>2.8</td>
<td>17.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Offering innovative products in financial sector is an effective and competitive strategy</td>
<td>F</td>
<td>12</td>
<td>15</td>
<td>3</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>34.3</td>
<td>42.9</td>
<td>8.6</td>
<td>11.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Competition leads to shorter relationships with customers due to the propensity to switch to more innovative lenders</td>
<td>F</td>
<td>7</td>
<td>14</td>
<td>1</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td>20.0</td>
<td>40.0</td>
<td>2.8</td>
<td>22.9</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Source: Research Data, (2014)
4.5.2 Effect of product innovation and Service Innovation on Mortgage Institutions.

According to the study shown on figure 4.4 below 85.7% of the total respondents indicated that product and service innovation affects mortgage institutions in Kenya; while 14.3% of the businesses indicated that product and service innovation arising from market competition does not affect mortgage institutions in Kenya. From the study it can be seen that product and service innovation arising from market competition affects mortgage institutions in Kenya.

![Figure 4.4 Effect of product innovation and Service Innovation on Mortgage Institutions](image)

**Figure 4.4** Effect of product innovation and Service Innovation on Mortgage Institutions

Source: (Research Data, 2014)

4.5.3 Relationship between Product and Service Innovation and Performance of Mortgage Institutions

The study used a significance level (alpha) of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test to determine the degree to which product and service innovation is related to the performance of mortgage institutions. Results on table 4.13 below show a positive correlation coefficient ($r = 0.582$, $r^2 =0.339$) indicating that 33.9% probability of performance of mortgage institutions is influenced by product and service innovation.
Table: 4.13 Relationship between Product and Service Innovation and Performance of Mortgage Institutions Correlation Model

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Performance</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Performance of mortgage institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>Performance of mortgage institutions</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Product and Service Innovation</td>
<td>.582a</td>
<td>0.339a</td>
<td>5</td>
</tr>
</tbody>
</table>

**Dependent Variable: Performance of Mortgage Institutions**

**significance level = 0.005. * 2 tailed Test**

4.5.4 Relationship between competition and performance of mortgage Institutions

The Findings on table 4.14 below shows the significance of the relationship between Market share, cost efficiency and product and service innovation and performance of mortgage institutions. The study used alpha of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test.

The results is expressed in the positive (r) = .532 for market share; (r)= .617 for cost efficiency, (r)=.582 for product and service innovation ; while (r2) = 0.282 for market share , (r2)=.381 for cost efficiency and (r2)=.339 for product and service innovation (indicating 28.2%, 38.1% and 33.9% probability that competitive market share, cost efficiency and product and service innovations respectively relate to performance of mortgage institutions. In addition the computed t-value of (t=2.11) is smaller than the critical t-value of (t=2.57) while the p-value of (0.152) is larger than the significance level of (0.05).

The results of the study indicate that there is a significant relationship between market share, cost efficiency and product and service innovations and performance of mortgage institutions.
Table 4.14: Summary Model

<table>
<thead>
<tr>
<th>Competition</th>
<th>Performance</th>
<th>r</th>
<th>r²</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>Performance of mortgage institutions</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Market Share</td>
<td>0.531</td>
<td>0.282</td>
<td>5</td>
<td>0.014</td>
</tr>
<tr>
<td></td>
<td>Cost Efficiency</td>
<td>0.617a</td>
<td>0.381a</td>
<td>5</td>
<td>0.043</td>
</tr>
<tr>
<td></td>
<td>Product and Service Innovation</td>
<td>0.582a</td>
<td>0.339a</td>
<td>5</td>
<td>0.029a</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of Mortgage Institutions

**Significance level = 0.005. * 2 tailed Test**

Table 4.15 Coefficients

<table>
<thead>
<tr>
<th>Competition</th>
<th>Performance</th>
<th>B</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td></td>
<td>1.640</td>
<td>.752</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td></td>
<td>1.146</td>
<td>0.089</td>
<td>.554</td>
<td>0.057</td>
</tr>
<tr>
<td>Cost Efficiency</td>
<td></td>
<td>0.809</td>
<td>0.159</td>
<td>.736</td>
<td>0.049</td>
</tr>
<tr>
<td>Product &amp; Service Innovation</td>
<td></td>
<td>0.738</td>
<td>0.021</td>
<td>.068</td>
<td>0.046</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of Mortgage Institutions

4.6 Summary of the Chapter

Data analysis was done by editing and coding with the goal of highlighting useful information, suggesting conclusions, and supporting interpretations. It involved breaking down factors identified through the data collected into simpler coherent parts in line with the objectives of the study in order to derive meanings. The tabulated data was analyzed quantitatively by calculating various percentages, while descriptive data was analyzed qualitatively by organizing collected data into meaningful notes. The presentation of the results of quantitative analysis was in form of frequency tables, pie-charts and bar graphs.
so as to highlight the results and to make it more illustrative and easier to understand and interpret, while the results of qualitatively analysis was provided in form of explanatory notes. The findings established that market share; cost efficiency and product and service innovations influence the performance of mortgage institutions.

The next chapter will discuss and draw conclusions and recommendations on the findings of the data analysis based on the specific objectives of the study and research questions pertaining to the effects of market share, cost efficiency and product and service innovations on performance of mortgage institutions.
5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The purpose of this chapter was to discuss and draw conclusions and recommendations on the findings of the main objective of the study which was to examine the effects of competition on performance of mortgage institutions in Kenya; and the specific objectives pertaining to the effects of market share, cost efficiency and product and service innovation on performance of mortgage finance institutions.

5.2 Summary
The purpose of the study was to examine the effects of competition on performance of mortgage institutions in Kenya with particular reference to Housing Finance of Kenya. Specifically the objectives of the study were to determine the effects of market share, cost efficiency and product and service innovation on performance of mortgage finance institutions with a case study of Housing Finance Company of Kenya.

The study used a descriptive survey approach in collecting data from the respondents because it ensured complete description of the situation, making sure that there was minimum bias in the collection of data. The study population was drawn from all financial institutions offering home ownership solutions through mortgage finance with the target population being Housing Finance Company of Kenya. The sample size comprised Housing Finance staff (43) drawn from sales, marketing and credit. The study employed stratified sampling to ensure the various ranks were well represented.

The primary data for the study was collected using the questionnaires which were pilot tested to ensure reliability and validity of the data. The questionnaires were self-administered and contained both open ended and closed questions. Quantitative data was analyzed using descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS17.0); based on the research objectives and questionnaire items pertaining to the effects of market share, cost efficiency and product and service innovation on performance of mortgage finance institutions with a case study of Housing Finance Company of Kenya.
The findings established that market share; cost efficiency and product and service innovations influence the performance of mortgage institutions. Based on the study (79.1%) of the total respondents indicated that competitive market share affects mortgage institutions. The study established that competition leads to some mortgage institutions merging or entering into partnerships and strategic alliances in order to enhance their capabilities and market share so as to remain competitive and to retain and even acquire more markets.

Based on the study (91.4%) of the respondents indicated that cost efficiency arising from competition influence mortgage institutions. This is because competition puts pressure on mortgage institutions to become cost efficient by reducing cost inefficiencies; forces mortgage institutions to minimize costs, offer services at lower prices and at the same time to increase profits. The study also established product and service innovation affect performance of mortgage institutions. This is due to the fact that competition enhances efficiency and stimulates innovation as mortgage institutions increase their competitiveness by continuously introducing new innovative products and services or qualitative change in the existing product and processes for delivering services.

5.3 Discussion

5.3.1 Effects of competition on market share of mortgage institutions in Kenya.
The study established that increased competition forces mortgage institutions to expand their current market share, while seeking for alternative markets and clients for their products and service. These findings concurs with the observations of Fernandez de Guevara et al., (2005) who noted that a decrease of monopoly rents and market shares associated with increased competition force mortgage institutions to expand their market base and explore new markets and new client base, implying an increase in market coverage.

The study established competition forces mortgage institutions to be exceptionally discriminative in their lending thus extending loans only to borrowers they consider less risky and cost effective hence this affects their market share and market acquisition
capacities. The findings of the study confirm the observations of Maudos and Fernandez de Guevara (2004) that due to competition financial institutions extending loans only to borrowers whom they consider safe and profitable. This reduces market penetration, as lending to new and unexplored markets is generally considered to be more unsafe and unprofitable. The findings also concurs with those of Boot and Schmeits, (2005) who established that higher competition is likely to be associated with less stable, shorter relationships between customers and banks as customers’ propensity to switch to other providers increases in more competitive environments.

The study discovered competition leads to some mortgage institutions merging or entering into alliances and strategic alliances in order to enhance their capabilities and market share so as to remain competitive and to retain and even acquire more markets. The findings agree with those of Sathye, (2002) which established that increased competition may lead to concentration with firms merging and consolidating their market share so to a large market share and the resultant economic activity control of economic activity by large firms.

The study found in order to retain its market and even acquire more as a result of competition mortgage institutions selectively review their lending requirements, client selection standards, monitoring and screening procedures so as to increase market penetration, while reducing costs. These adds to the findings Rosenberg, (2010) who established that there is negative relationship between increased competition and market performance due to increased market participants and availability of alternative products.

The study established competition in the mortgage market results in some rogue clients defaulting due to increased alternatives at the same time client acquisition becomes competitive. This negatively affects mortgage institutions as this result in a decrease in their profits as a result of increased defaults, cost of client’s acquisition and shrinking market share. This is in line with the views of Maudos and Fernandez de Guevara (2004) who established that increased competition is associated with falling profits forcing financial institutions to engage in more cautious market expansion.

The study also established that greater concentration of players causes less competitive mortgage institutions to lose their market. This is in agreement with the views of Michael
Porter (2008) who noted that when firms are numerous, the likelihood of mavericks is great and some firms may habitually believe they can make moves without being noticed. Even where firms are relatively few, if they are relatively balanced in terms of size and perceived resources, it creates instability because they may be prone to fight each other and have the resources for sustained and vigorous retaliation. Slow industry growth turns competition into a market share game for firms seeking expansion. Market share competition is a great deal more volatile than is the situation in which rapid industry growth insures that firms can improve results just by keeping up with the industry, and where all their financial and managerial resources may be consumed by expanding with the industry.

5.3.2 Effects of Cost Efficiency on Mortgage Finance institutions in Kenya

The study established that competition puts pressure on mortgage institutions to reduce cost inefficiencies and offer services at lower prices so as to increase sales and at the same time grow the institutions profitability. This confirms the observations of Schaeck and Čihak, (2008) that competition lead banks to adopt more efficient processes, to keep costs to the minimum and to be more successful in the competition for consumers.

The study also found out competition drives mortgage institutions to deliver their products and services at minimal costs while at the same time making internal processes cost efficient so as to lower overall costs and improve organizational efficiency while achieving a competitive position in the marketplace. This is in line with the views of Amel, Barnes, Panetta and Salleo, (2004) who indicated that with increased competition, financial institutions find ways of delivering services at lower costs to ensure they acquire competitive edge.

The study further established that efficient mortgage institutions will increase in size and market share at the expense of less efficient mortgage institutions which is in agreement with Vander (2002) who noted that indeed, efficient banks with superior production and technologies management that translate into higher profits will increase in size and market share at the expense of less efficient banks.

The study reveals that increased competition leads to higher overall cost which is in agreement with Williams (2004) who noted that yet, competition may also lead to higher
costs. Competition may result in borrower over-indebtedness, lower repayment performance and increased default rates. Lower levels of repayments and increased default rates add to the costs financial institutions’ lending activities. Second, with increased competition in the market, financial institutions may also not only have to compete for clients and market shares, but also for capital and labour inputs. Thus, interest rates at which they borrow money and loan officer salaries may rise, leading to higher costs.

This opinion is also supported by Boot and Schmeits (2005) who state that however, competition may increase monitoring costs because of the existence of scale economies, and of potential reduction of the length of the customer relationship, further decreasing cost efficiency of banks. This is an indication of the need for greater spending by banks on customer monitoring and establishing credit worthiness of new clients who migrate from the competition.

The study lastly found out competition reduces inefficiencies by providing incentives for managers to exert more effort to avoid the personal costs of bankruptcy. This is in agreement with Leibenstein (2004) who noted the main determinant of the reduction of inefficiencies is the increase of competitive pressures for two reasons. First, competition provides incentives to managers to exert a higher effort. As they are aware of the increase of competition, managers have to improve their performance unless their firm leaves the market. Thus, managers are motivated by their will to avoid the personal costs of bankruptcy. Second, a higher number of firms on the market improve the possibilities for owners to assess firm performance, relative to other firms. They acquire in this way a better knowledge about the production function of the firm. Owners are then able to make a better assessment of managerial performance and consequently to proceed to changes in management if necessary. Being informed about the comparative possibilities of competition, managers are inclined to exert a higher effort.

5.3.3 Effects of Product and Service innovation on Mortgage Finance institutions in Kenya

The study revealed that offering innovative products in financial sector is an effective competitive business strategy. These findings confirms the observations of Lin, Wang and Yu (2010) and Tidd & Bessant (2009) who established that in a competitive market,
financial institutions may tend to offer innovative products and services to triumph over the competition. That offering innovative products in financial sector are an effective business strategy to strive for cost reduction, improve the performance, productivity, and organization competitiveness. These views are further supported by Kim and Mauborgne (2005) who note blue oceans denote all the industries not in existence today.

This is known as the unknown market space. In red oceans, industry boundaries are defined and accepted and competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the market space gets crowded, prospects for profits and growth are reduced. Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans by expanding industry boundaries. It will always be important to swim successfully in the red ocean by outcompeting rivals. Red oceans will always matter and will always be a fact of business life. But with supply exceeding demand in more industries, competing for a share of contracting markets while necessary will not be enough to sustain high performance. Companies need to go beyond competing to seize new profit and growth opportunities; they also need to create blue oceans.

The study also established that attracting new consumers significantly depends on the speed of innovation of the mortgage institution. This relates closely to the observations of Michael Porter (2008) who noted that much innovation is mundane and incremental, depending more on an accumulation of small insights and advances than a single, major technological breakthrough. It often involves ideas that are not new, ideas that have been around, but never vigorously pursued. It always involves investments in skill and knowledge, as well as physical assets and brand reputations. Some innovations create competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored. When competitors are slow to respond, such innovations yields competitive advantage. For instance, in industries such as autos and home electronics, Japanese companies gained their initial advantage by emphasizing smaller, more compact, lower capacity models that foreign competitors disdained as less profitable, less important and less attractive.
Lastly the study revealed that the quality of innovation is directly related to the experience of the lender which is in agreement with Ren, Xie and Krabbendam (2010) who observed that a company’s tacit knowledge and the experience of public relations that a company accumulates over a long period of time are both difficult resources for competitors to imitate.

This opinion is further supported by Rosenbusch, Brinckmann and Bausch (2011) who observed that innovation–performance relationship is context dependent and factors such as the type of innovation, the cultural context, and age of the firm which affect the impact of innovation on organizational performance to a large extent.

5.4 Conclusion

5.4.1 Effects of competition on market share of mortgage institutions in Kenya.
Mortgage institutions are forced to be exceptionally discriminative in their lending thus extending loans only to borrowers they consider less risky and cost effective hence this affects their market share and market acquisition capacities. Competition leads to some mortgage institutions merging or entering into partnerships and strategic alliances in order to enhance their capabilities and market share so as to remain competitive and to retain and even acquire more markets. In an effort to remain competitive and retain their market share and profitability mortgage institutions increase product and service development, launch and supply in the market. They also selectively review their lending requirements, client selection standards, monitoring and screening procedures so as to increase market penetration, while reducing costs. Competition in the mortgage market results in some rogue clients defaulting due to increased alternatives at the same time client acquisition becomes competitive. This negatively affects mortgage institutions as this result in a decrease in their profits as a result of increased defaults and cost of client’s acquisition.

5.4.2 Effects of Cost Efficiency on Mortgage Finance institutions in Kenya
Competition puts pressure on mortgage institutions to become cost efficient by reducing cost inefficiencies. Competition forces mortgage institutions to minimize costs and offer services at lower prices while at the same time increasing volumes to increase profits. Competition also drives mortgage institutions to deliver their products and services at minimal costs while at the same time making internal processes cost efficient so as to
lower costs and improve organization efficiency and achieve competitive position in the marketplace. Competition reduces inefficiencies by providing incentives for managers to exert more effort to avoid the personal costs of bankruptcy.

5.4.3 Effects of Product and Service innovation on Mortgage Finance institutions in Kenya

Competition enhances efficiency and stimulates innovation as mortgage institutions increase their competitiveness by continuously introducing new innovative products and services or qualitative change in the existing product and processes for delivering services. Product and services innovation facilitate customer acquisition, entrance into potential markets, increasing market share, achieving consumer retention and satisfaction, new product development, and delivery process improvement. Competitive mortgage institutions that offer innovative products (goods and services) increase their market competitiveness and acquire more customers as offering innovative products in financial sector are an effective competitive business strategy in cost reduction, performance improvement and profitability.

5.5 Recommendations

The following are the recommendations for improvement based on the specific objectives and also recommendations for further studies.

5.5.1 Recommendations for Improvement

5.5.1.1 Competition and Market Share of Mortgage Institutions in Kenya

The study recommends that financial institutions in the mortgage finance business carefully analyze customer product needs and service them profitably through increased product and service supply to the market leading to multiple usages of these products and services by customers. This will also result in retention of current market share and an increase in new customer acquisition. This can be implemented by contracting market and social research agencies to gain powerful insights into consumer dynamics that will ensure precision in fitting product development to consumer needs. Market share can also be grown by going into long term joint ventures with niche lenders with an expertise in areas such as small and micro enterprises.
5.5.1.2 Cost Efficiency and Mortgage Finance institutions in Kenya
There is need for mortgage institutions management to nurture stable, long term relationships between customers and the banks so as to curtail customers’ propensity to switch to other providers. This will have the effect of reducing cost for additional screening and monitoring of borrowers hence making them competitive in the market. This study recommends that mortgage lenders can further reduce costs by automation of manual processes and focusing on core business which can significantly reduce operational costs for a mortgage lender. Sourcing of negotiated cheaper funds from major foreign lenders can also lead to significant cost cutting as compared to relying on customer deposits or locally sourced loans. This will hedge against volatility and regional macro economic shocks.

5.5.1.3 Product and Service innovation on Mortgage Finance institutions in Kenya
To enhance their competitive positions, there is need for mortgage institutions to anticipate its customers' changing needs and respond to them through continuous innovation by continuously collecting, analyzing, and disseminating information about customers. They also need to strengthen this customer focus by nurturing customer-oriented culture in the organization. ISO certification of mortgage lenders can also go a long way in ensuring standards are up to par all round at all touch points with customers. This study recommends mortgage Lenders can further increase innovation by letting their staff know that innovative thinking is not an added bonus, but an integral part of the requirement. Innovation and creativity should be part of key deliverables for the various work teams supported by forums and budgets to experiment with new ideas.

5.5.2 Further Research
Due to time and resource constraints the study, covered only one mortgage institution in the market and focused only on three effects of competition which included market share, cost efficiency and product and service innovations as indeed there are other effects of competition on performance of mortgage institutions. Therefore there is need for further research in this area covering larger target population which can include regional lenders and focusing on other effects that have not been covered by this study.
REFERENCES


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Suzanne B. (2006). How we compete; what companies around the world are doing to make it in today’s global economy. Journal of International Money and Finance 26


APPENDICES

APPENDIX: I

Dear Respondent,

**REF: EFFECTS OF COMPETITION ON MORTGAGE INSTITUTIONS IN KENYA; A CASE STUDY OF HOUSING FINANCE COMPANY OF KENYA.**

I’m a student at United States International University and currently pursuing a Masters of Business Administration Degree. As a requirement for partial fulfillment for the award of Masters of Business Administration, a research project must be done.

Kindly assist in filling the attached questionnaire that will facilitate me to prepare and complete the research project.

All the information provided herein shall be treated in strict confidence.

Thank you in advance

Yours sincerely,

SAMUEL GAKURU MUNGAI
APPENDIX II

RESEARCH QUESTIONNAIRE

Thank you for taking your time to fill this questionnaire. Your response to the questions herein will be treated confidentially.

Please answer all the questions as best as you can. Please Tick as appropriate

SECTION A: Demographic Characteristics

1. Name (Optional): __________________________________________

2. What is your gender a) Male  [ ]   b) Female  [ ]

3. Age bracket of the respondent (a)20 – 30  [ ]  (b)31-40  [ ]  (c) 41-50  [ ]  (d) 51 and above[ ]

4. Respondents level of Education

   Secondary level  [ ] Diploma level  [ ] Degree level  [ ] others (specify)

5 Respondent Categories

   Sales Manager  [ ] Credit Manager  [ ] Credit Staff  [ ] Marketing Staff  [ ]
   Sales Staff  [ ]

6. Years of service in the organization

   0-4 yrs  [ ]  5-9 yrs  [ ]  10-19 yrs  [ ]  20 + yrs  [ ]
PART 1: Competition and Market share

7. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your personal opinion for each statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased competition force financial institutions to expand their market base, explore new markets and client base</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased competition results in rising defaults and falling profits forcing financial institutions to engage in more cautious market expansion</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition force banks to extend loans only to borrowers they consider safe and cost effective as lending to new and unexplored markets is generally considered being more risky and costly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased competition may lead to concentration with firms merging and consolidating their market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater concentration causes less competitive banks to lose their market and leads to lesser profitability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased product and service supply to the market may lead to multiple uptakes of organization products and services by clients, resulting in increase in market share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased competition puts pressure on financial institutions to relax lending, client selection standards reduce costly monitoring and screening procedures so as to increase market coverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. In your view does competitive market share influence affect mortgage institutions in Kenya? Yes [ ] No [ ]
PART 2: Competition and Cost Efficiency

9. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your personal opinion for each statement

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased competition puts pressure on financial institutions to become cost efficient.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>By reducing cost inefficiencies, competition is expected to result into organization growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition forces banks to minimize costs, offer services at lower prices, and at the same time boost volumes to increase profits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficient banks will increase in size and market share at the expense of less efficient banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With increased competition, financial institutions find ways of delivering services at lower costs to ensure them a competitive edge</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition lead to higher costs arising from borrower over-indebtedness, lower repayment performance and increased default rates.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition reduces inefficiencies by providing incentives for managers to exert more effort to avoid the personal costs of bankruptcy</td>
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<td>An increase in competition produce increases in profit efficiency as exogenous shock force banks to minimize costs.</td>
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<td>Potential movement of customers help generate the best terms for customers and lead banks to adopt more efficient processes, to keep costs to the minimum</td>
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<td>Competition increases monitoring cost efficiency of banks because of scale economies, and potential reduction of the length of the customer relationship</td>
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10. In your view does cost efficiency arising from competition influence mortgage institutions in Kenya? Yes [ ] No [ ]
PART 3: Product and Service Innovation

11. Using a scale of 1-5 where (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree) rate the value corresponding to your personal opinion for each statement

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<tr>
<th>Statement</th>
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<tr>
<td>Competition is a positive force as it fosters efficiency and</td>
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<td>stimulates innovation</td>
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<td>Financial institutions often come under competitive pressure because;</td>
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<td>their products and services are no longer attractive for the current</td>
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<td>and potential customers</td>
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<td>The quality of innovation is directly related to the experience of the</td>
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<td>lender</td>
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<td>Attracting new consumers, opening new markets and achieving consumer</td>
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<td>retention significantly depends on the speed of innovation</td>
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<td>Less competition in the market arises from the perception of the</td>
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<td>institutions as being able to utilize the latest technology and</td>
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<td>introduce new innovative products or services</td>
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</table>
Competitive financial institutions may tend to offer innovative products (goods and services) to triumph over the competition and later co-create value for customers.

Offering innovative products in financial sector is an effective competitive business strategy to strive for cost reduction, improve the performance, productivity and growth

Higher competition is associated with less stable, shorter relationships between customers and banks as customers’ propensity to switch to other providers with innovative products and services increases in more competitive environments

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<td>value for customers.</td>
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12. In your view does product and service innovation arising from market competition affect mortgage institutions in Kenya?

Yes [ ] No [ ]

Thank You