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EFFECT OF COMPETITIVE STRATEGIES ON GROWTH OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN BUNGOMA COUNTY, KENYA

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ABSTRACT

This study sought to examine the effect of competitive strategies on the growth of Saccos in Bungoma County. The study was anchored on Agency Theory; Resource Based View theory and Stewardship theory. Its specific objective was to determine the effect of differentiation strategy on the growth of Saccos in Bungoma County. The study employed a descriptive research design and targeted a population of 112 Sacco top management staff of active Saccos in Bungoma County. The Chief Executive Officers, Chairpersons, Treasurers and Honorary Secretaries were the main respondents and were studied in a census. Data was collected using a self-administered questionnaire whose reliability was tested in a pilot study. Findings of the study revealed that there was a significant positive relationship between differentiation strategy and growth of Savings and Credit Cooperative Societies in Bungoma County. The study therefore recommended that Saccos adopt differentiation strategy through initiatives like offering unique products and services, instituting non-executive boards of directors, establishing strategic committees, opening up the common bond, opening doors for licensing and regulation by Sacco Societies Regulatory Authority (SASRA), and crafting strategic plans. Other initiatives include establishing reliable strategic partnerships with other financial and non-financial institutions, reserving sufficient funds annually as institutional capital to shield against unforeseen risks and operationalizing a unique operation/ service delivery system. The findings and recommendations of this study would be valuable in helping managers of Saccos and other financial institutions together with policy makers in this sub sector like SASRA, KUSCCO and WOCCU in determining the appropriate strategies to be embraced in fostering the growth of Saccos in Kenya and the world at large.

Keywords: *Competitive strategies, Differentiation, Growth*

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INTRODUCTION

A well-functioning strategy and governance system can help a Savings and Credit Cooperative Society (Sacco) raise funds, attract investment and improve her performance. It also builds member confidence and goodwill in the Sacco Wasike, (2012). However, the cooperative movement worldwide still faces serious and fundamental challenges ranging from basic concepts like cooperative principles, objectives and structures to more complex issues of survival, competitiveness and growth Ademba, (2012). According to Waggoner (2016), many firms make every effort to achieve competitive advantage but very few of these organizations appreciate the concept of competitive advantage and how it is arrived at. Besides, as explained in Agency theory, employed agents or managers in Saccos often act against the best interests of the members. Therefore, strategies need to be developed to reduce costs and therefore raise the competitive position of the Saccos (Wanyama, 2009).

According to Handerson (2013), in order for a company to be successful and grow, it should have diverse markets and a variety of products which have different growth rate. Every firm needs to decide which competitive path to take. Two of such paths are The Boston Consulting Group (BCG) Growth-Share Matrix and Michael Porter's Generic Strategies. The BCG Growth-Share Matrix was advanced by Boston Consulting Group (BCG) in 1970 and is a useful planning tool which uses graphical display of an organization's products so as to help the firm decide what to keep, sell, or put more investment in. The Generic Competitive Strategies on the other hand propose that a firm can possess competitive advantage either through: low cost or differentiation. When these two pillars are combined in a firm they give birth to three generic strategies that is focus, cost leadership and differentiation strategies. This study was based on these three Generic Strategies, precisely differentiation strategy.

Differentiation strategy means a set of actions to produce products which customers will perceive as different and important (Bani-Han & AlHawary, 2009). Differentiation can also be described as tailoring a product to perfect suit the need of the customer (McCracken, 2002).

Cost leadership strategy describes gaining competitive advantage through charging prices that are lower than those of competitors (Porter, 2001). This results from reducing production and distribution costs. Cost leadership concerns being a low cost firm through experience, superior product design, economies of scale, use of low input costs, all which lead to low pricing (Johnson, 2011). According to El-Kelety (2011), this strategy aims at improving efficiency and control of costs in an organization as well as throughout its supply chain.

Focus strategy refers to a case where a firm concentrates on a particular consumer group, geographic market or product line. It revolves around broad or narrow market scope, where broad market means the overall market and a narrow market means one market segment only Roxy (2010). This strategy comprises of production of goods aimed for a particular market segment and not for the entire market (Lahtinen & Toppinen, 2006)

Mohsenzadeha & Ahmadiana (2016) studied firm competencies' effect on export performance, with competitive strategies being a medicating factor. Precisely, the mediating competitive strategies were information competency, production capability, sales and marketing capacity. Questionnaires were used in a random survey of 200 experts and managers of leading Iranian exporting companies. Competitive strategies were found to mediate on performance of exports and production capacity. However they did not mediate between marketing competence and performance of exports. These findings however do not portray the situation in Kenyan Saccos.

In 2016, Fathali assessed competitive strategies and corporate innovation. The study used questionnaires to managers of SAIPA and Iran Khodro automobile companies in Iran. Their responses were subjected to correlation and regression analysis. It was found out that Porter's competitive strategies' effect on corporate innovation was positive and significant. This study however does not reflect the context of Kenyan Saccos.

Afram (2011) studied competitive strategies in Ghana's banking industry. It was a case study of The Barclays Bank of Ghana. His specific objective was first to identify competitive strategies used by the bank. It was also meant to identify the main competition themes in the industry. He applied quantitative and qualitative analysis methods. Findings portrayed the bank as operating in a very competitive environment. The bank was found to be using focus strategy by targeting large corporate customers. It recommended differentiation strategy as another viable strategy to use especially to win the middle and low-income clients. Although this study was done in Africa, there is a contextual gap with reference to Kenya.

Mugenyi (2010) did a study on corporate governance and strategy in Saccos in Uganda. The study was a descriptive survey and it found that Saccos in Uganda did not have business strategies and where they existed; they were written and remained in paper without implementation. The boards also did not have the capacity to mainstream the very plans into operational activities. Saccos had links to apex bodies but hardly any other linkage and beneficial partnerships. Their boards had failed in their roles and still had a long way from effective governance. The study emphasized that Sacco boards must perform their oversight proactively for Saccos to become profitable and risk proof. These findings are satisfactory but are from Uganda, hence a need for a customized study in the Kenyan Sacco sector.

In Kenya, Waweru (2009) carried out a study on Mwalimu Sacco's strategic responses to competition. His study was a case study and it found that the Sacco had repackaged its loan products, trained staff, done continuous market research and development and conducted aggressive promotion of products and services. The Sacco had also implemented the ISO 9001-2009 standards and guidelines, and was keen on implementing her strategic plans. The Sacco sourced for cheap funds and also benchmarked with other leading Saccos. Mwalimu Sacco was found to conduct customer satisfaction survey enabling her to tailor-make her product. The Sacco had also increased her usage of ICT and continuously upgraded the Cooperative Management Information Systems (CMIS) to improve efficiency and provide new savings products for members and FOSA customers. This study is a Kenyan one but it was a case study. The methodology used presents a gap, necessitating a similar or related study in a boader context.

Bungoma County is the second largest county after Kakamega in the former Western Province of Kenya. The county was the home of 28 active Saccos which varied in size as well as common bond. According to Sasra Supervision Report of 2010, although there were 7 licensed Saccos operating in Bungoma County, all of them only had a total of 9569 members, yet other counties with less Saccos had much higher Sacco membership. These include: Mombasa County, 1 Sacco, 19,063 members; Kilifi County 1 Sacco, 49,387 members; Embu County 6 Saccos, 106,049 members; Muranga County 6 Saccos, 172,522 members; Elgeiyo Marakwet County 2 Saccos, 10,937 members; Baringo County 2 Saccos, 11,816 members; Kericho County 6 Saccos, 69,522 members; and Kakamega County 4 Saccos, 65,832 members.

This mismatch between Sacco membership and the number of Saccos across the county is what prompted this study. Could it be that the competitive strategies are being applied more effectively among Saccos in other other counties as compared to

Bungoma County? It is on this basis that this study sought to find out the effect of competitive strategies (differentiation) on the growth of Saccos in Bungoma County, Kenya.

Statement of the Problem

Kenya is ranked first in Africa and number seven worldwide in the cooperative movement and so we expect Kenya to have adopted new approaches to the Sacco model especially amid the fast changes in the financial environment. Despite Kenya leading in Africa, KUSCCO (2014) reported that only 3,983 (57.7%) of the Saccos were active. This means that a whopping 42.3% were not part of the success story and one would wonder how Kenya could be the best in Africa with such a dismal state of affairs among the Saccos. Could it be that the active half were very apt in responding to the rapid changes in the financial markets? Or that the rest of the countries in Africa were not proactive per se?

Also as noted above, the mismatch between the total number of Sacco members and the number of Saccos in Bungoma County aroused the question: could it be that the competitive strategies were being applied more effectively among Saccos in other counties as compared to Bungoma County?

Since there seemed to be little empirical researches to give clear answers to these questions, and that there was no documented study done in Bungoma County on the competitive strategies adopted by Saccos and what effect these strategies had on their growth, this set out to fill this gap.

Objective of the Study

The main objective of this study was to investigate the effect of competitive strategies on the growth of Savings and Credit Cooperative Societies in Bungoma County.

LITERATURE REVIEW

Theoretical Review

Agency Theory

Panda & Leepsa (2017), argued that Agency Theory can be linked to the Adam Smith's work, *The Wealth of Nations* in which he propounded that if an organization is managed by a person or people who are not the real owners, then there is a likelihood that the managers may not work for the owners' expectation or benefit. Ross (1973) and Mitnick (1975) advanced the theory coming up with two approaches from their work. Ross presented the agency problem as one of incentives, while Mitnick perceived that the problem results from institutional structure. All in all, the central idea behind their arguments is the same. Ross saw the principal–agent problems as being fueled by compensation decisions. He also inferred that these problems occur in the larger society and is not limited to firms. Mitnick's institutional approach was useful in developing the rationale for the theory and has also helped in understanding human behavior of wider real world. Mitnick's views have continued to propagate that institutions are built around agency and that organizational strategies are meant to bring reconciliation.

Agency theory therefore suggests that stewards do not naturally make decisions for maximization of owners' value (Daily *et al*., 2003; Clarke, 2004). The daily operation of Saccos is the responsibility of the board of directors who are usually elected by members or delegates. The directors then delegate this responsibility to employees, usually under a Chief Executive Officer (CEO) or a manager. The real owners of the society are the members who are consequently separated from the employees. The employees are hired and their main motivation to work is the compensation they receive for their labor. Members on the other hand want a return on their investment. To a large extent, these goals are exact opposites, almost mutually exclusive. This then sets the ground for principal-agent problems, which give birth to dissatisfaction of members. The main

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problem of principal-agent relationship could involve conflicts of interest among them. These conflicts are likely to impact more negatively when the Saccos are very large because these provide more opportunities for agents to maximize their own interests (Buberwa et al, 2012).

According to Nkuru (2015), the major reason why Saccos experience more agency problems than other forms of business units is their lack of capital market discipline. They also emphasize on member service at the expense of the profit motive. In addition, the ownership of saccos is transitive. All these reasons, coupled with the lack of market for their shares limits the motivation of Sacco members to closely monitor and evaluate the actions of Sacco workforce.

Based on the above, Agency theory becomes very relevant in justifying institutional structures meant to ensure that Sacco agents act in a way as to uphold the best interests of Sacco owners. Whatever policy they formulate, the watchword should be a win-win for both the agents and the owners.

Resource Based View (RBV) Theory

RBV theory was proposed by Wernerfelt in 1984 and is still undergoing improvement. One such improvement was done by Barney (2001). The theory is used in different contexts and business cases in the quest for competitive advantage. The basic suggestion of the theory is that a firm stands a chance of gaining competitive advantage if it uses the resources she has innovatively to deliver superior value to customers. (Ketchen, Barney & Wright, 2001 & Njoki, 2018).

The RBV theory emphasizes the role of organizational resources in enabling organizations achieve higher performance (King, 2007). Based on this theory, there are two main types of resources in any firm; tangible and intangible. The tangible ones include machinery, buildings, land, equipment, capital and human resources. These are those resources that can be obtained easily from the market therefore give very little benefits to the organization in the long term. The main reason why tangible resources don't benefit the firm in the long term is that other organizations can also obtain them, even better ones. Intangible resources on the other hand have no physical presence yet are still owned by an organization. Examples include intellectual property trademarks and brand reputation (Newbert, 2008). As opposed to tangible resources, intangible resources take a long time to build and cannot be bought easily from the market. In addition, these resources are the primary sources of competitive advantage for firms in perfect competition.

This theory emphasizes that resources bring about sustained competitive advantage when they are immobile and heterogeneous (Ketchen, Barney & Wright, 2001). Heterogeneity means that the resources, skills and capabilities are different from other companies. Immobility means that the resources are difficult to duplicate and so cannot be moved easily to other organizations.

The VRIN Model authored by Barney in 1991 which is an abbreviation for Value, Rareness, Inimitability and Non-substitutability gives five vital factors to be considered in identifying resources that can bring competitive advantage. Value means that the resources have a higher relative cost and benefits. Rareness means that the demand for the resource is higher than its supply. Inimitability implies that it is not easy to copy or imitate those resources. By being non-substitutable, it means that other varieties of resources cannot be used effectively or reliably as substitutes (Helfat & Peteraf, 2003).

Rabbi (2015), explained the resource based view theory as a situation where a firm gives priority to building resources that are difficult to imitate, valuable and unique. It also involves coming up with a dynamic way of exploiting those resources to bring success to the organization. Based on this theory, competitive advantage is a product of resources that

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are hard to imitate, valuable and unique. He adds that the workforce is one of these resources.

In this study, RBV theory proved very useful in exploring differentiation strategy and an effort by businesses to use the resources they have in a profitable and competitive way.

Stewardship Theory

This theory was advanced by Donaldson and Davis in 1991 & 1993 respectively. The theory is seen as a new approach to understanding the relationships between owners and managers of an organization. Stewardship theorists work with an assumption that when a steward is confronted with choosing between serving self and serving the best interest of their organizations, then the steward will prefer to serve their organizations to self. A steward is therefore seen to be a collectivist, trustworthy and pro-organizational. This theory therefore happens to be a significant counterbalance to Agency Theory (Olando et. al., 2013).

According to Menyah (2013), this theory presents an argument that people are naturally motivated to work for their employers. It argues that human beings are pro-organizational and collective minded and not individualistic. For these reasons, employees can work to achieve group, organizational or societal goals without much ado since they gain a certain level of satisfaction when they do so. Stewardship theory is one basis for understanding the motivation of people at the work place.

This theory denies the existence of conflict of interest between organizational managers and the owners. It argues that the objective of governance is only to establish mechanisms and structure that promote the most effective collaboration between the two (Donaldson, 1990). It insists that the problem of executive control does not exist, and that managers even tend to be overly kind in their actions (Donaldson, 2008). Stewardship Theory therefore prescribes that the behavior of manager is aligned with the interests of owners. It places greater value on an underlying convergence in the goals of the various parties involved in any organization (Donaldson, 2008).

In a Sacco, the employees under the CEO or manager are assumed to protect member investments and use them to make profit for the members. As they do this, they themselves should be satisfied and motivated (Abdullah & Valentine 2009). The theory emphasizes that the managers are stewards keen on maximizing Sacco performance and consequently profits to members (Daly et al., 2003). This theory assisted the researcher in identifying the role of strategy in growth of Saccos.

Empirical Review

A study conducted by Teeratansirikool *et. al.,* (2013) focused on the association between performance of firms and competitive strategies with performance measurement being a mediating factor. It was a cross-sectional survey of 561 Thailand's listed companies. The study showed that all competitive strategies enhanced firm performance positively and significantly with the aid of performance measurement. Differentiation strategy had a significant but indirect effect on firm performance. The shortcoming of the study is its focus on the mediating role of performance measurement as well as it being a survey of all listed companies in Thailand some of which are not financial institutions.

In Ghana, Afram (2011) studied competitive strategies in the banking industry. He did a case study of Barclays Bank of Ghana. He aimed at identifying the strategies used by the bank. Besides, the study was meant to assess the degree of competition in the industry. Questionnaires were used and it was found that the bank was facing stiff competition. He found the bank using focus strategy as seen in how it targeted big corporate organizations. He recommended them to apply differentiation initiatives as well so as to achieve the inclusion of the low and middle-income earners. Although the study gives a typical African case and banks are financial institutions, there was a need for a study specifically on Saccos.

Jeje (2015) conducted a study whose aim was to compare product and market development against Sacco performance in Tanzania. It was a cross sectional survey and it used multi-stage sampling method. His study revealed that market development and product development lead to outreach performance. The study also revealed that if a Sacco introduced new loans, had flexible terms and conditions or reduced loan processing time she attained greater outreach performance. Other factors that increased performance included: frequently marketing Sacco products, recruiting new members and encouraging members to grow their savings. Although it was an East African study, it did not focus on competitiveness, but rather growth.

In Kenya, a study by Gathinji & Arasa (2010) explored the relationship existing between organizational performance and competitive strategies. Their study was based on the telecommunications sector. It was a survey that used both purposive and stratified sampling methods. Their findings revealed that a high level of competition existed in the mobile telecommunications industry. In the study, cost leadership and differentiation happened to be the most common strategies. In addition to that, differentiation strategy significantly and positively influenced performance. From the study, the key indicators of differentiation were customer retention, sales and market share, product innovation and overall profitability. In conclusion, the study recommended that when implementing product differentiation strategy, the emphasis should be offering unique products that increase customer loyalty.

METHODOLOGY

This study was a descriptive survey. According to Bungoma County Cooperative Centre (2017), there were 28 active Saccos in Bungoma County which were more than five years old. The target population of this study was 112 consisted of 28 Sacco Chief Executive Officers/ Managers, 28 Sacco Chairpersons, 28 Sacco Treasurers and 28 Sacco Honorary Secretaries. This was because the Chief Executive Officers (CEOs)/Managers and their respective Executive Committee members were obviously the most informed as concerns the status of competitive strategies used by their respective Saccos. Data was collected using a questionnaire whose questions were closed-ended and the variables were then analyzed using descriptive and inferential statistics in view of the objectives of the study. The significance of the hypothesis was determined using multiple linear regression, at a confidence level of 95%, (α=0.05).

RESULTS

Table 1: Multiple regression: Coefficients of determination

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.
		B	Std. Error	Beta (β)		
1	(Constant)	.776	.304		2.553	.013
	Differentiation strategy	.580	.084	.644	6.919	.000***

Dependent Variable: growth of the Saccos

Independent variable (predictors): differentiation strategy

*** significant at 1%

Source: Field data (2017)

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The value of β, was 0.644 meaning that a unit change in differentiation strategies would lead to 0.644 in growth of Saccos membership, loans and total assets.

The value of *t* was 6.919 confirming that at 95% confidence level, differentiation strategy's effect on growth of Saccos was significant. This is because the *t* value was greater than the critical value of +2.

Testing the Hypotheses

The hypothesis test criterion was that the null hypothesis should be rejected if p-value < 0.05 otherwise accepted if the p-value > 0.05.

Table 2: Testing the Hypotheses

Hypothesis	Actual position	Decision
$H_0$1: Differentiation strategy has no significant effect on growth of Savings and Credit Cooperative Societies in Bungoma County	at 5% significance level, the significance value for differentiation strategy *p*=.000	Reject the hypothesis

Source: Field data (2017)

SUMMARY

The study found that differentiation strategy had a significant effect on growth of Savings and Credit Cooperative Societies in Bungoma County, *p*=.000. These findings were related to those of Kinyuira, 2014 who found out that there was a strong positive relationship between performance of Saccos and competitive differentiation strategy (0.855). They were also related to those of Lilungu, Marangu and Masungo, 2015, who studied the impact of strategic planning on the performance of Saccos in Kakamega County, Kenya and found out that when Saccos employed strategic planning in their operations, their performance improved by 30.2 percent.

These findings partly supported earlier results of Thompson et al. (2008), Allen *et al.* (2006) & Datta (2009) who contended that generic strategies could be linked to performance of organizations.

CONCLUSIONS

The objective of this study was to establish the effect of differentiation strategy on growth of Savings and Credit Cooperative Societies in Bungoma County. From the findings above, the study concluded that the effect of differentiation strategy on growth of Savings and Credit Cooperative Societies in Bungoma County was significant.

RECOMMENDATIONS

From the above conclusions, this study recommended that Saccos should open up the common bond to include a diversified membership. They should also seek to be licensed and regulated by Sasra as this agency would furnish them on performance evaluation, guidance, training and facilitation. They should as well seek to incorporate non-executive boards of directors which will offer professional Sacco/ financial expertise based on principle and practice. The study equally recommended the establishment of strategic committees and strategic plans since these are important drivers of strategy formulation and implementation. The study further recommended that Saccos should continuously seek to offer products and services that are unique as compared to other Saccos. They should also establish dependable partnerships with other institutions and leave sufficient reserves as institutional capital to mitigate against unforeseen risks. They should also improve and operationalize unique operation/ service delivery system as compared to other Saccos.

Suggestions for further research

This study suggested that future researchers can study the effect of cost leadership and focus strategies on growth of Savings and Credit Cooperative Societies in Bungoma County, Kenya.

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