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Effects of Competitive Strategies on Financial Performance of Saccos in Kenya: The Case of SACCOs in NAROK Town

JAEL SOILA, Guda Patrick

Abstract
Background: *There has been a productive development of SACCOs in Kenya to the degree that the World Council of Credit Unions distinguished Kenya's SACCO sub-area as the highest in Africa and the seventh quickest developing worldwide. The expanding number of contestants has prompted increased rivalry. Consequential studies have been directed on the impact of competitive strategies on the financial performance of Saccos. Most studies conducted in Kenya found out that dividend policy and membership had a constructive outcome while loan default had a negative impact. While past studies concentrated on factors affecting financial and non-financial performance and implementation of strategies in SACCOs, less has been said about the effect of low cost strategy on the financial performance of SACCOs.*
Materials and Methods:*The study used causal and descriptive survey research designs. The target population of the study was the ten duly enlisted SACCOs in Narok town. The respondents were Managers of the SACCOs in Narok Town. The sampling method was based on a census of the target population. A sample size of 100 respondents was utilized with self-administered questionnaires issued to the respondent. Data were analyzed using descriptive statistics, where the means and standard deviations were computed. The multivariate regression model was used to assess the extent to which each competitive strategyexplains the variation of SACCOs' financial performance.*
Results: *The low-cost strategy was found to be significant with a p value of p=0.000 in explaining the financial performance of SACCOs.*
Conclusion: *The study concluded that SACCOs should commit more to low-cost strategy in order to improve its financial performance.*

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I. Introduction

SACCOs are claimed and managed by members and specialize in issuing credit at low-interest rates, mobilizing savings, and offering different financial products of assistance to its members (Awing, 2011). The principal targets of co-operatives are to energize the utilization of present-day innovation and add to public development through the creation of products. On the other hand, Service Cooperatives provide education to members, loan disbursement, procurement, extension services, sale of consumer goods, and marketing (Branco, 2015). As per Kadiana (2017), Cooperatives play a significant role in the financial development of the world's economies most essentially adding to their Gross Domestic Product (GDP).

Savings and Credit Cooperatives (SACCOs) have existed for over a century offering different types of assistance to more than a hundred and twenty million individuals all through the world. Participation of SACCOs cut across all sections of society, rustic and metropolitan poor-, low- and middle-income workers, market women, craftsmen, small dealers, and ranchers.

In Western Europe for example there are 11,000 local and regional saving and credit cooperatives with an overall portion of 17% of the market share of all investment funds (Ombado, 2013).

The larger part of co-operatives throughout the Planet is financial undertakings. The cooperative way of thinking was begun in the year 1844 in Britain by Rockdale pioneers and its standards are followed everywhere in the world (Mwita, 2019). They give consumer services and producer services. They are framed to address financial requirements not satisfactorily met in the traditional frameworks. The premise of cooperative achievement is that they give economies of scale. They give institutional methods whereby distinct individuals can bunch themselves into self-improvement units. Through their help structures at the auxiliary and tertiary levels, they offer basic types of assistance and produce a pay in a manner that would not, in any case, be conceivable. The Latin American Confederation of Savings and Credit Co-agents (COLAC), for example, has

had the option to get advances from the Inter-American Development Bank which has empowered its seventeen public part leagues to improve their loaning administrations to their partners (ICIC, 2011).

In Africa, the main SACCO society was presented by Father John Ncnulty in Ghana in 1959. The point was to help natives improve their financial conditions (Ombado, 2014). English-speaking countries were the first to receive SACCO. The initial participants in SACCO were Ghana, Uganda, Nigeria, Tanzania, and Kenya. A large portion of the non-English-speaking countries in Africa began liking SACCO in the 1960s, with significant convergence into the SACCO community group in the 1970s (Ndegwaet.,al, 2016). The SACCO sub-area is the quickest developing among co-operatives in Kenya establishing 42% of the absolute number of co-operatives in Kenya (Ministry of Cooperative Development and Marketing, 2013). As significant parts in the financial area, they have figured out how to mobilize over Kshs.200 billion, which is around 31% of the absolute public investment funds (Ministry of Cooperative Development and Marketing, 2010). Sacco's significance in Kenya is reflected in the monetary mainstay of Vision 2030, where they are relied upon to assume a significant part in adding to an energetic and the world cutthroat financial area.

As per SASRA (2013), in Kenya, the SACCO development has advanced in the previous 40 years into an impressive power for the social and economic change of the Kenyan People. There are 12,000 enlisted cooperative societies with a participation of more than 7 million out of which 5,000 are SACCOs and 230 have Front Office Service Activities (FOSAs) while the rest offer just credit facilities. By the start of the year 2016, SASRA had enrolled 164 SACCOs in Kenya who were authorized to complete Deposit-Taking (DT) SACCO business in Kenya up to 31st December 2016 and other 12 SACCOs confined up to June 2016. Among these SACCOs enrolled under SASRA, 14 were settled in Narok town. As per Financial Sector Deposits (FSD) 2010, SACCOs are one of the main wellsprings of country financing and a few Sacco's appear to perform better compared to others. The overview likewise noticed that they utilize various strategies to draw in their clients. However, it is not clear which competitive strategy brings out great outcomes. Hence, this study explored the effects of low-cost strategy on the financial performance of SACCOs in Narok town.

II. Materials and Methods

Study Design: This study utilized a descriptive survey research design. The descriptive research design was utilized because it empowered the researcher, to sum up, the findings of the SACCOs in Narok town to SACCOs in other towns. It was likewise utilized to establish how much low-cost strategy is associated with the financial performance of the SACCOs.

Study Location: The study was carried in Narok town specifically the Narok SACCOs

Sample Size: The sampling technique that was used in the study was census since the population was not big. Therefore, the sample size was 100 respondents.

Data Collection Instruments: The study utilized primary data which was gathered using a self-controlled questionnaire. Orodho (2013) states that a questionnaire can be utilized to gather a tremendous measure of information in a generally more limited time. In this study,a self-administered questionnaire enabled respondents to respond about the low-cost strategies utilized by their SACCOs.

Data Analysis: Data analysis was conducted by the use of SPSS (Statistical Package for Social Sciences). The study employed both descriptive and inferential statistics. Measures of central tendency and variations were obtained. Also, the correlation and regression parameters were obtained to ascertain the strength of relation and the effect of the independent variable on dependent variable. For regression, the equation below was employed.

$$Y= \beta_0 + \beta_1 x_1 + e$$

Where:

Y= Financial Performance of SACCOs.

X_1 = Low-cost Strategies.

e = Error term which captures the unexplained variations in the model.

β_0 = the constant term.

β_i = will be used to measure the financial performance of the dependent variables (Y) to a unit change in the predictor variables.

The regression output from SPSS gave the P values which were tested at the 5% significant level utilizing a two-tailed test. If the P-value is under 0.05, the null hypothesis was rejected and the alternative hypothesis accepted. Hence, the variable under investigation was viewed as Significant. The regression model was picked because the analysis gives the variation of Y because of the change in X. For the hypotheses to be significant a P-value ought to be less than 0.05 (significant value).

III. Results

Response rate: A total of 100 structured questionnaires were issued to employees and managers of 10 SACCOs in Narok town. Eighty (80%) percent response rate was attained which is still satisfactory in concluding the study. Participation rates are falling due to privacy issues and mere lack of interest; a low response poses a risk to reliability

Descriptive Data analysis: The study variables were analyzed using descriptive analysis to provide a better understanding of the effect of low-cost strategy on the financial performance of SACCOs in Kenya. A 5-point Likert scale questionnaire was administered with the following scale: 1- strongly disagree, 2-disagree, 3-Undecided, 4-agree, and 5-strongly agree. To enable proper distinction of intervals a continuous mean response scale was used as follows: 0.8≤ strongly disagree ≤ 1.6, 1.7≤ Disagree ≤ 2.5, 2.6≤ Undecided ≤ 3.4, 3.5≤ Agree ≤ 4.3, 4.4 ≤ strongly agree ≤ 5.2.

Low-Cost Strategy and Financial Performance of SACCOs

The study sought to evaluate the effect of a low-cost strategy on the financial performance of SACCOs in Narok Town. To achieve this objective the respondents were asked to rate their opinion on how the low-cost strategy is influencing the financial performance ofSacco on a five-point Likert scale. The sub-variables were; massproduction,cost of services,account maintenance,cost operation,interest rates, and cost of products. The data were analyzed using descriptive statistics.The results are presented in Table 1

Table 1 Descriptive statistics for low-cost strategy responses

Low-Cost Strategy	S.D		D		U.D		A		S. A		M	SD
Cost of products and services	1	(1.3)	8	(10.0)	27	(33.8)	36	(45.0)	8	(10.0)	3.525	0.856
The low-cost of operation	2	(2.5)	6	97.5)	39	(48.8)	30	(37.5)	3	(3.8)	3.325	0.775
Transaction costs have been reducing	2	(2.5)	10	(12.5)	31	(38.8)	31	(38.8)	6	(7.5)	3.362	0.889
There is low accountmaintenance	2	(2.5)	3	(3.8)	25	(31.3)	33	(41.3)	17	(21.3)	3.75	0.920
There is mass production of materials	1	(1.3)	5	(6.3)	38	(47.5)	31	(38.8)	5	(6.3)	3.425	0.759
Interest rates are low	2	(2.5)	5	(6.3)	31	(38.8)	38	(47.5)	4	(5.0)	3.462	0.794
	F	%	F	%	F	%	F	%	F	%		

Key: F=Frequency, SD=standard deviation

The result in table 4.7 show that1(1.3)% strongly disagreed that the cost of products and services were lower than competitors,8(10)% disagreed,27(33.8)% were undecided,36(45)% agreed and 8(10)% strongly agreed, with a mean of 3.525 and a standard deviation of 0.85647.The respondents who agreed with this statement were less than 50%.These findings are consistent with the results of Thompson et al, that low-cost strategy would offer low cost than rivals thus giving them a competitive edge in the market.However, David(2011) also explains that strategists should not just pursue a low-cost strategysince it does not provide a permanent competitive advantage.If the low-cost strategy is easily attainable then the low-cost strategy will not last long enough to yield a valuable edge.It implies therefore that majority of SACCOs in Narok town are following a low cost strategy that give them a competitive edge.

On the statement, whether the low cost of operations has contributed to the financial performance of SACCOs 2.5% of respondents strongly disagreed, 7.5% disagreed, 48.8% were undecided, 37.5% agreed and 3.8% agreed with a mean (3.325), and standard deviation (0.77582). The majority of the respondent either agreed or was undecided. This is consistent with the contingency theory, which holds that when all constraints are under consideration in decision making, there is a tendency to reduce the cost to gain a competitive advantage, it means that SACCOs in Narok town experience different internal and external situations that can either enable or constrain the adoption of low operational costs.

On whether the SACCOs transaction cost has reduced over the years, the majority of respondents agreed or were undecided at 38.8%. The majority of the respondent also agreed that there is a low maintenance cost in their SACCOs at 41.3% with a mean of 3.75 and a standard deviation of 0.92092.Just like operational cost transaction cost is determined by several contingencies such as the regulation and taxes hence the dispersion between those who are either undecided or agree with this statement.

On the statement, whether the SACCOs are achieving economies of scale, most of the respondents we undecided at 47.5% but on whether the interest rate in the SACCOs is low, 47.5% of the respondent agreed with a mean and standard deviation with a mean standard deviation of 3.4625 and 0.79466.That the majority of the respondents were undecided about its economies of scale potential can only be best explained by the nature of the target population, since the majority of the SACCOs in Narok town are centralized operations with few operating as branches.

In general,the result indicates thatthere exists a link between low-cost strategy, operational and financial performance. HenceSACCOs in Narok Town are actively pursuing a low-cost strategy to remain competitive and improve their performance. Every SACCO believes they are offering the best quality at the best price. A low-cost strategy is therefore a key competitive strategy in improving the financial performance of SACCOs Narok Town in Kenya.

The data were further analyzed using independent sample t-test to assess the first null hypothesis that:
Ho1: Low-cost strategy does not have a significant effect on the financial performance ofSACCOs in Narok Town.

Table 2 Hypothesis test on low-cost strategy

Table 2: One-Sample t-test Statistics

	N	Mean	Std. Dev	S.E
Low-cost strategy	80	3.4579	.64342	.07194

One-Sample Test

	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Low-cost strategy	13.316	79	.000	.95788	.8147	1.1011

The resultsin table 4.11 reveal that themajority of the respondent agree that a low-cost strategy has a significant effect on the financial performance of SACCOs in Narok Townas shown by the actual $\bar{X}$ of 3.4579. The $p < 0.05$.We therefore reject the null hypothesis Ho1 and accept the alternative. This finding is consistent with Bowman's on strategy, as found by Bowman and Raspin (2018) that a low-cost strategy delivers equivalent product quality compared to that of competitors but with a continuous and relentless focus on cost reduction. On this backdrop, the SACCOs in Narok Town believes that their products and services are lowly priced giving them a competitive edge.

Correlation analysis

Correlation among the independent variable is explained by the correlation matrix in table 3. The correlation coefficients lie between -1 and +1. The correlation coefficient between -1 and -05 indicates a strong negative association, while correlation coefficient between -0.5 and 0 indicates a weak negative association, a correlation coefficient of 0 indicates no association, between 0 and +0.5 indicates weak positive association, lastly between 0.5 and +1 indicates a strong positive association.

Table 3 shows correlation matrix

Correlations

		Low-cost	Performance
Low-cost	Pearson Correlation	1	.517**
	Sig. (2-tailed)		.000
	N	80	80
Performance	Pearson Correlation	.517**	1
	Sig. (2-tailed)	.000	
	N	80	80

Source; Research (2022)

Table 3shows that there is a relation between financial performance and low-cost strategy of 0.517 an indication that the independent variable has a significant contribution to explaining financial performance.

Regression Analysis Results of Effects of low-cost strategy on financial performance of SACCOs in Narok Town.

To determine the overall effect of low cost strategy on financial performance of SACCOs in Narok Town, low-cost, was regressed on perceived rating of financial performance. The results are presented in Table 4.15.

Table 4 Regression model summary for financial performance on low-cost strategy

Model Summary

Model	R	R2	R2Adj	S.E	Durbin-Watson
1	.792a	.627	.612	.58150	1.566

a. Predictors: (Constant), Low-cost strategy.

Table 5: Coefficients of regressing Low-cost strategyon financial performance of SACCOs in Narok town

	B	S.E	β	t	p
Variables	-1.438	.480		-2.998	.004
Low-cost	.417	.114	.287	3.667	.000

Dependent Variable: Financial performance

The regression coefficient in Table 5 show that low-cost strategy, has a positive and significant effect on the financial performance of SACCOs in Narok town as shown by coefficients of low cost strategy ($B=0.417, t=3.667, p<0.005$). As the SACCOs enhance the effectiveness ofthe low-cost strategy financial performance will improve by the proportion of beta weights.

IV. Discussion

The findings indicated that low account maintenance costs contribute to the financial performance of SACCOs in Narok town, low operational cost has the least contribution to financial performance.This implies that the best low-cost strategies for improving financial performance are customer-oriented.The study found out that there was a significant relationshipbetween low-cost strategy and the financial performance of SACCOs in Narok town.The regression coefficient indicated that low-cost strategy has a positive and significant effect on the financial performance of SACCOs in Narok town as shown by coefficients of low cost strategy($B=0.417, t=3.667, p<0.005$) . As the SACCOs enhance the effectiveness of the three competitive strategies financial performance will improve by the proportion of beta weights. This agrees with Murage (2017) and Ndegwa et al. (2016) who focused on the impact of low, differentiation and focus strategy on the financial performance of Deposit-Taking SACCOs in Kisii and Meru County respectively. They Found out that all the strategies positively impacted on financial performance of SACCOs

V. Conclusion:

On low-cost strategy, the study revealed that low cost of operations has the least contribution to the financial performance of SACCOs in Narok town.

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