

# Effects of Porter's Generic Competitive Strategies on the Performance of Savings and Credit Cooperatives (Saccos) in Murang'a County, Kenya.

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**Abstract:** *The ever changing and turbulent competitive business environment pose major challenges to Saccos like any other organization in Kenya and managers have been struggling to compete favorably. Porter argue that superior performance can be achieved through pursuit of a competitive generic Strategy. This has made identification and pursuit of the right competitive strategies as a source of superior performance to become a predominant priority in all organizations. Nevertheless the application of the right strategies is still a concern in many Saccos which have made little effort to comprehend how Generic Strategies can give them a performance advantage over their rivals. Thus, the purpose of this study was to assess the effects of Porter's generic competitive strategies adopted by Saccos in Murang'a County on their performance.*

*An explanatory research design was used to help identify the causes and reasons of the current status of the variables of study, targeting 384 employees of all the 8 Saccos registered by the Ministry of Cooperative Development in Murang'a County. Simple random sampling technique was used to select a sample of 116 employees. Data was then be collected using questionnaires and document analysis then analyzed using correlational and regression analysis. The study found significant positive effects of cost leadership, differentiation and focus strategies on performance of Saccos and concluded that Saccos that pursue generic strategies can achieve superior performance compared to those that do not.*

**Key words:** *competitive strategies, cost leadership, differentiation, focus strategy, firm performance*

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## I. Introduction

### 1.1 Background

Savings and Credit Cooperatives (SACCOs) play a key role in the mobilization of resources and therefore the sub-sector occupies a strategic position in the social-economic development of Kenya and the realization of the National Vision 2030 (MoCDM, 2012). Noteworthy, the Kenyan SACCOs are ranked first in Africa and seventh worldwide, commanding 67% and 62 % of the total assets and deposits/savings respectively in the African continent. They have mobilized Kshs. 490 billion in savings, which represents 33% of national savings (WOCCU, 2013). This means SACCOs play a key role in creating vibrancy and competitiveness in the financial sector. Further, compared to the cooperative sector national growth rate of 8.6% (KNBS, 2012a, b; MoCDM, 2012; SACCOs grew by 15% in 2013 (Tirimba, 2013). Compared also to 55,952 credit unions spread in 101 countries, SACCOs in Kenya have the highest growth rate worldwide (WOCCU, 2013). In the year 2013, Kenya was awarded the WOCCU outstanding membership growth award, having achieved a 25% membership growth.

Based on MoCDM (2013) in Murang'a County, SACCOs are the most common types of cooperatives, encompass all sectors of the economy and are involved in all cooperative business activities. The county is the home of Murang'a farmers' cooperative union and Unaitas Sacco one the largest farmers' cooperative union and one the largest rural Sacco in the country respectively. Mentor and MTN Sacco are also large urban and transport Saccos respectively which serve members drawn from all over the country. Moreover, Unaitas and Mentor have spread branches outside the county and are planning to be full credit banks in future. This justifies the choice of SACCOs in Murang'a County in Kenya as a suitable population of study.

To successfully play financial intermediation role and sustain performance as envisaged in the Kenya Vision 20030, it is imperative that Saccos become competitive in the highly turbulent and competitive financial services sector they belong. In this regard, it is crucial for managers to know the trends, magnitude and the rate of this competition. Subsequently they must manage strategically in order to compete favorably, thereby ensuring growth and survival of Saccos. Porter (1980; 1985) postulate that managing strategically leads to a competitive advantage that result to superior performance: the single most important goal of any firm. Conversely organizations that lack proper competitive strategies have low chances of survival. Porter (1980, 1985) further contend that superior performance can be achieved in a competitive industry through pursuit of generic strategies, which he defines as the development of an overall cost leadership, differentiation and focus approach to industry competition. Further, Bharadwaj and Varadarajan (1993) suggest that the ability to

implement a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive practices, which are the basis for the achievement of superior firm performance.

In cooperatives, just like in the other organizations, the identification of the sources of competitive advantage has become a predominant priority. Nevertheless the application of the right strategies is still a concern in many Saccos which has made little effort to comprehend how generic strategies can indeed give them competitive performance advantage over their competitors (Maina and Manyara, 2004). Thus, overtime many Sacco managers have pondered why some organizations within the financial services industry especially the commercial banks have managed to secure an advantageous competitive position while others have not. Most Saccos have often attempted systematic approaches that may help them understand the sources of competitive advantage such as developing new resources with minimal effect on performance. This has made Saccos to pursue competitive strategies in varied degrees and orientations. Moreover, the need to offer quality services to customers, employees and other external stakeholders have made Saccos to seek strategies that follow within Porter's generic strategy types (Young, 1999; Devlin, 2000).

Based on literature review, various authors concur that a firm's superior performance results from the successful implementation of a generic strategy, which must be supported by competitive practices as the basis of competitive advantage. Therefore, this study researched on how competitive strategies defined by competitive practices affect performance of Saccos in Murang'a County.

### **1.2 Problem Statement**

Cooperatives are defined as autonomous associations of persons united voluntarily to meet common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises (Makori et al., 2013; ICA, 2012c; Wanyama et al., 2009). In this regard, Saccos as a form of business create the context for a closer strategic fit between the organizational design and the members' needs (Mazzarol et al., 2011a); Birchall, 2010), by linking social association to profit centered enterprise. This ability to create a stable system in which organizational activities bond together in consistent and complementary way (Johnson et al., 2008) provide a fundamental competitive advantage to cooperatives (Jussila, Byrne, and Tuominen, 2012). However, the competitive advantage has not been sufficient to enable superior performance in Saccos. This has adversely affected the Saccos efforts to play their rightful financial intermediation role in the economy despite their numerical strength and unique business model. Porter (1980) argue that superior performance can be achieved through pursuit of a competitive Generic Strategy. This has made identification and pursuit of the right competitive strategy as a source of superior performance to become a predominant priority in all organizations Saccos included. Thus, the purpose of this study was to establish the effects of Porter's generic competitive strategies on the performance of Saccos in Murang'a County.

### **1.3 Research Objectives**

The General Objective was establish the effects of Porter's generic competitive strategies on the performance of Saccos in Murang'a County. To achieve this overall objective, the research specifically sought to determine the relationship between Cost Leadership Strategy and the performance of Saccos in Murang'a County, evaluate the relationship between Differentiation Strategy and the performance of Saccos in Murang'a County and assess the relationship between Focus Strategy and the performance of Saccos in Murang'a County.

### **1.4 Significance of the Study**

The study will help Sacco managers to comprehend how generic strategies can provide a competitive advantage over competitors. SACCO managers would also get more insights on how to define and measure performance of SACCO enterprises. Likewise, the uncovering and matching of key strategic practices that define each generic strategy better will greatly assist managers in choosing the most appropriate strategy to implement. In academic and research, this study will enrich literature on firm performance by providing a more insights on strategy-firm performance link.

## **II. Literature Review**

This chapter covers a brief review of various competitive strategy ideas, theories and the relationship between Porters competitive strategies and organizational performance.

### **2.1 Theoretical Review**

The Strategy concept originated from the Greek word "Stratego" denoting a plan to outdo and destroy ones enemies through effective use of resources (Thompson, Arthur, Gamble and Strickland, 2008). Strategic management scholars agree with Porter (1980) that strategy is a competitive plan that relates to the overall pattern activities and provide a sense of direction to an organization (Johnson, Whittington and Scholes. 2011). To investigate the strategy and performance relationship, many studies utilize approaches found to be generalizable across industries, specifically those proposed by Porter in 1980 (Allen and Helms, 2006). The

authors also concur with Porter (1980) that strategies are grand or generic. Grand strategies are long-term and can be customized to a specific firm, while generic strategies can be pursued by any type or size of business firm, including Saccos (Wheelen and Hunger, 2008).

The notion that generic strategies can be a source of superior performance is as old as the idea of strategy itself and has provoked considerable interest and inquiry within the strategic management discipline (Livvarcin, 2007). However, credit for articulating a set of three generic strategies and developing them into a testable framework goes to Porter (Hahn and Powers, 2010). Porter (1980; 1985) proposes three generic competitive strategies for outperforming other firms in a particular industry, namely: cost leadership, differentiation and focus defined along two dimensions: Broad scope and Narrow scope. Porter (1980) explains that the three strategies are an essential part of any effective business plan, which a firm can use to obtain a competitive market position. Porter (1985) further asserts that a firm performs best by choosing one strategy on which to concentrate. However, many authors argue a combination of these strategies may offer a company the best chance to achieve superior performance (Johnson et al., 2011; Johnson and Scholes, 2008). All the same, whatever strategy a business chooses, it must fit with the company and its goals and objectives to perform well (Hahn and Powers, 2010).

	<i>Low cost</i>	<i>Differentiation</i>
<i>Industry-wide (Broad Scope)</i>	<b>COST LEADERSHIP STRATEGY</b>	<b>DIFFERENTIATION STRATEGY</b>
<b>COMPETITIVE SCOPE</b>	<b>FOCUS STRATEGY</b>	
<i>Single Segment (Narrow Scope)</i>		

**Figure 1.** Porter's generic strategies framework. *Source:* Porter (1980)

## 2.2 Empirical Review

According to Porter (1980; 1985) cost leadership and differentiation are directly connected with profitability and ultimately superior performance of firms. Accordingly; research on generic strategies has identified strong links between Porter generic strategy types and performance. Some studies have found support for a single-strategy performance benefit (Allen and Helms, 2006; Hahn and Powers, 2004, 2010); while others studies have shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods. In a service industry, Allen and Helms, (2006) found that hospitals follow generic strategies and conclude that a focused cost leadership strategy is the best route to superior performance. Similarly, in their research on the UK wine industry, Richardson and Dennis (2003) found the hybrid focused differentiation approach was best for niche segments. Spanos, Zaralis and Lioukas (2004) studied the Greek manufacturing and found hybrid strategies were preferable to pure strategies. Additionally, Hahn and Powers, (2010) identified distribution, technology, segmentation, pricing, product development, branding, service quality, and relationship banking as areas where financial institutions pursue differentiation strategies.

In Kenya, various studies on the adoption of competitive strategies have been undertaken on local firms, for instance, Karanja (2002) looked at competitive strategies in real estates' using Porter's framework and Murage (2001) investigated the competitive strategies adopted by members of The Independent Petroleum Dealers Association. Both studies found that competitive strategies lead to superior performance. The study by Karanja (2002) found that the strategies pursued by Real Estates conform to Porters Generic Strategy types and since Real Estates serve customers from different income groups, all the three generic strategies were found to be significantly related to performance. The more these strategies were pursued, the more the performance of real estates improved leading to superior performance. Also, Murage (2001) found generic strategies to have positive effects on the superior performance of Petroleum companies and recommended increased pursuit of these strategies by all Petroleum Dealers in Kenya.

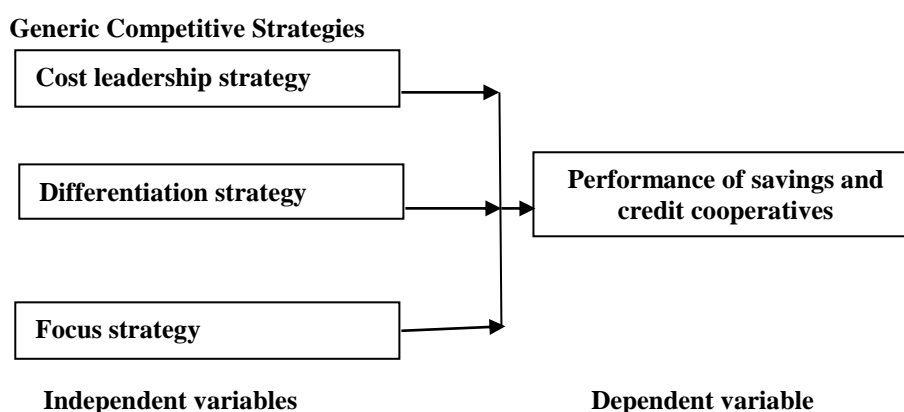
Likewise, Abdullahi (2000), examined strategies adopted by Kenyan Insurance companies and found that most do not have clearly defined competitive strategies. Muturi (2000) analyzed strategies by firms facing changed competitive conditions on East Africa Breweries and Mutura (2006) examined factors influencing the effectiveness of guarantor ship in loan recovery on Mwalimu Sacco society limited. Both studies found that the firms adopt generic strategies to enhance performance.

Also various other studies on Kenyan firms, revealed that financial institutions especially commercial banks adopt competitive strategies, whereby they lend unsecured personal loans at attractively low interest rates; offer exclusive services such as letters of credit to importers as well as other produce based loans to farmers. More specific, Mbai (2007) carried out a research on competitive strategies adopted by Mwalimu Sacco to meet challenges as a result of the 1997 liberalization of the Kenyan cooperative movement. The author found that the

competitive strategies adopted gave the SACCO a competitive advantage over other Saccos in terms of national wide membership. Other studies on SACCO societies in Kenya, such as Ndubi (2006) found that competitive strategies result to increased assets, improved marketing, better promotion, high quality and low costs of operation. Despite the various studies, some even on cooperatives, many Saccos do not understand how the adoption of competitive strategies can influence performance or can help in strategic response to competition (Mburu, 2009). Thus, there was need for a specific study on effects of competitive strategies adopted by cooperatives to create an understanding on the effects on performance.

### 2.3 Conceptual Review

The conceptual framework below shows generic competitive strategies as independent variables and performance of Saccos as a dependent variable. The framework is based on the hypothesis that adoption of Porter's generic competitive strategies significantly affect performance of savings and credit cooperatives in Kenya.



**Figure 2.** Conceptual framework.

**Generic Strategies Concept:** For a firm to adequately and promptly respond to competition successfully, it requires well-defined market oriented strategies (Mburu, 2009). According to Porter (1985), such strategies can enable a firm to create value for its buyers and establish a sustainable profitable market position. The strategies to provide this superior performance are: cost leadership, differentiation or focus strategy. Porter (1980; 1985; 2004; 2008), further explain that a firm may gain cost advantage through economies of scale, proprietary technology, cheap raw material, among others; while the strategy of differentiation can be used by offering a different product, a different delivery system, a different marketing approach, or by emphasizing different functional areas within the firm (Mburu, 2009). Firms can also offer a narrow range of products/services or target specific customers.

**Cost Leadership Strategy:** Cost leadership involves becoming the low cost firm in an activity and can operationalized as low input costs, economies of scale, experience, products/process design and low pricing (Johnson et al., 2011). Low input costs involve locating operations close to materials and cheap labour; economies of scale require large scale operations and experience is where more experience leads to efficiency. Products/process design influence efficiency by making products from cheap standard materials while low pricing is made possible by having products that are close to competitors in terms of features. The firm can then make small price cuts to compensate the slightly lower quality (Johnson et al., 2011). The low cost strategy should translate to a profit margin that is higher than the industry average (Porter, 1985).

**Differentiation Strategy:** This strategy involves uniqueness in doing something that is sufficiently valued by customers to allow a price premium (Johnson et al., 2011). The emphasis can be on brand image, proprietary technology, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. The uniqueness should also translate to profit margin that is higher than the industries average (Porter, 1985).

**Focus Strategy:** This strategy targets a narrow segment of a market not served well by cost leadership or differentiation strategies and tailors its products to the needs of that specific segment to the exclusion of others (Johnson et al., 2011). It is also employed when it is not appropriate to apply the broad cost leadership or differentiation (Porter, 1985), by offering a limited range of services/products, serving specific markets only or

having special product/service for specific type of customers (Allen and Helms, 2006; Hahn and Powers, 2004; 2010).

**Performance of Savings and Credit Cooperatives:** Enterprise performance refers to the total social-economic outcomes resulting from the interaction of an organization's components in the course of operations (Lusch and Laczniak, 1989). It is the most important goal and a key measure of output (Porter, 2004) but defining, measuring and its source has been contentious among researchers (Abu-Jarad, Yusof and Nikbin, 2010). However, writers acknowledge that organizational performance is the ability of an organization to achieve its goals and objectives (Daft, 2000; Ricardo and Wade, 2001) such as high sales turnover, returns on equity and returns on assets (Mudaki, 2011; Mudaki, Wanjere, Ochieng, and Odera, 2012). Therefore, Performance of Saccos can be a good indicator of effects of Porter's generic competitive strategies.

Moreover, just like companies, cooperatives are business operations that are basically subject to competitive rules (ICA, 2012; Birchall, 2012; Borzaga and Galera, 2012; MoCDM, 2013). Thus, SACCOs' key measures of success must be those of business success which include turnover, the rate of dividends, assets, loans, share capital, number of members and number of branches (Pagura, 2008). In this regard, based on the literature reviewed, this study will use the indicators to define performance. The indicators are used annually by Sacco Societies Regulatory Authority (SASRA) to evaluate performance SACCOs. In addition, Kenya Union of Savings and Credit Cooperative (KUSCCO) and Cooperative Alliance of Kenya (CAK) use the rate of dividends and interest on deposits to rank the performance of SACCOs for awards during the International Cooperative Day.

## 2.4 Measurement of Variables

The study concepts were defined in order to measure and be understood in terms of empirical observations as shown in fig 2.2. Operationalization of variables also facilitated easy construction of questionnaire based on a conceptual framework (Shields and Hassan, 2006). Operationalization framework is in appendix 1.

## III. Research Methodology

This chapter identifies the procedures and techniques that were used in the data collection, processing and analysis. It also highlights the limitations of study and ethic issues considered.

### 3.1 Research Design

An explanatory research design was used because it is built on exploratory and descriptive designs. The design helped to identify the causes and reasons of the current status of the variables of study. It also explained the effects of competitive strategies on the performance of SACCOs in Murang'a County. The data was obtained from both primary and secondary sources. Secondary data sources were mainly from documents such as financial statements and management reports. The researcher pre-tested questionnaires before they were used to collect primary data. After collection, the data was processed and analyzed by tabulating and performing statistical computations. The research design ensured the minimization of bias and maximization of reliability of collected evidence.

### 3.2 Target Population

The population of study comprised of 384 employees from all the 8 Saccos registered by the Ministry of Cooperative Development and Marketing in Murang'a County namely; Mentor, Murata, MTN, Muna Transporters, Kimuri, Unaitas, Mumathi, and ACK Diocese. These Saccos were also selected as the target population because of their size, performance and accessibility. In terms of size, Murang'a County has four large Saccos, Murata and Unaitas, Mentor and MTN Sacco. Unaitas and Mentor have spread branches outside the county and planning to be full credit banks in future. In terms of accessibility, all the targeted Saccos have their head offices in Murang'a town. The target population distribution was as shown in Table 1 below.

**Table 1. Sampling Frame and Sample Distribution**

	SACCO NAME	NUMBER OF EMPLOYEES	SAMPLE DISTRIBUTION	%
1	Mentor	39	12	30.21%
2	Murata	107	32	30.21%
3	MTN	37	11	30.21%
4	Muna Transporters	28	8	30.21%
5	Kimuri	23	7	30.21%
6	Unaitas	119	36	30.21%
7	Mumathi	16	5	30.21%
8	ACK Diocese	15	5	30.21%

<b>TOTAL</b>	<b>384</b>	<b>116</b>	<b>30.21%</b>
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*Source: Ministry of Cooperative Development and Marketing: Saccos Annual Performance Report, Murang'a District (2013)*

### 3.3 Sample Size, Sampling Method and Procedures

Simple random sampling was used to select 116 employees from all the 384 employees of the 8 Saccos in Murang'a County, representing a 30.21% of the target population as shown in Table 1 above. This is in line with recommendation by Gay et al. (1992) that a sample of 10-20% of the target population is adequate. Sizes of sample respondents were allocated proportionately to the total number of employees from the respective Saccos and a sample of 30% of the total employees was selected from each Sacco at random. The respondents must have had at least one year of employment at the organization to have adequate knowledge on the organization to accurately complete the questionnaire. This ensured that the researcher have access to the right respondents who are likely to understand the Saccos (Cooper and Schindler, 2011).

### 3.4 Data Collection Procedures and Instruments

The primary data were collected by administering questionnaire to 116 Sacco employees. The questionnaire had two sections. Section A: contained questions on general information on the Sacco and the respondents; while section B focused on the respondents' opinion on the extent to which various competitive practices are employed in the Saccos and their effects on various measures of performance. The questionnaire comprised of items measured on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). This method was appropriate as it is easy to complete and thus has a high response rate (Churchill, 1987). To ensure a high response rate the researcher issued the questionnaires personally and made follow-up visits and phone calls to the respondents. Secondary data was collected mainly from existing records such as audited financial statements and management reports for years 2011, 2012 and 2013 to determine performance trends.

Sacco employees to determine its appropriateness, accuracy, clarity and suitability. To ensure validity and reliability of the questionnaire, Cronbach's alpha was be computed on the pilot test responses and a Cronbach's alpha of 0.7 or higher was considered sufficient (Sekaran and Bourgie, 2009). Further, the Pearson correlation coefficient (r) was be used to compute the scores of questions (Kothari, 2009). The study also employed methodological and source triangulation to validate the findings. Methodological triangulation entailed use of questionnaires and document reviews, while source triangulation entailed use of different categories of employees as respondents (Flick, 2006).

### 3.5 Data Analysis and Reporting

The collected data were cleaned, coded and analyzed using the Statistical Package for Social Sciences (SPSS). To bring out the quantitative meaning of the data (Swift and Piff, 2005), relationships and predictions among variables were determined using correlations and regression techniques (Mugenda and Mugenda, 2003, p.132). A descriptive analysis was used to analyze the responses and Pearson Product Moment Correlation Coefficient used to determine the relationship between the dependent and independent variables. A correlation analyses was carried out at a 0.05 level of significance. Also to determine if any of these Generic strategies was significantly related to performance, a regression equation for the 3 strategies was formulated as

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

Where: Y = Performance of Saccos

X<sub>1</sub> = Cost leadership strategy

X<sub>2</sub> = Differentiation strategy

X<sub>3</sub> = Focus strategy

The data were presented in form of tables, percentages, mean scores and standard deviations.

### 3.6 Limitations of the Study

The research reported here was based in the savings and credit cooperatives, which may limit the generalizability of the findings to other industry settings. The study was geographically limited as it was conducted in only one county, which may limit the ability to generalize results on an industry-wide basis due to political, socio-cultural, economical, and ecological differences that may impact the nature of the competitive environment of Saccos in other areas. Despite these limitations, the research provides initial insight and understanding on the effects of competitive generic strategies and on performance of Saccos.

### 3.7 Ethical Issues

These are important considerations established to protect the rights of research participants. In this case, all participants were fully informed on the procedures to be used; participants' privacy was guaranteed by use of official titles only and confidentiality by availing collected information only to those directly involved in the study. Also, data were not fabricated, falsified or misrepresented and was used for this academic research purpose only.

#### **IV. Data Analysis and Interpretation**

This section presents the research findings on the effects of generic strategies on performance of Saccos from data collected on the sampled population.

##### **4.1 Quantitative Analysis**

Both descriptive and inferential statistics were used to analyze the data. In the descriptive statistics, mean scores and standard deviations were used, while in inferential statistics; correlation and multiple linear regression analysis were used. To improve on validity, respondent characteristics were built into the research process. This was done because although a true relationship existed between generic strategies and the performance of Saccos, respondent characteristics may magnify true effects.

##### **4.2 Response Rate**

Out of the 116 questionnaires issued, 102 were returned of which 6 respondents were eliminated because they had less than the required 1 year of employment in their Saccos. This resulted in a net sample of 96 or an 87.93 percent response rate. This response rate exceeded that of Robinson and Pearce (1988), Kotha and Vadlamani (1995) and Hahn and Powers (2004) in related studies.

Further, the researcher analyzed the respondents' distribution per Sacco and per department to establish whether the Sacco size, the respondents' job positions or years of service had any significance effect on the response rate. A Chi-Square test indicated that there was no significant difference between the numbers of responses received from each Sacco when compared to the percentage of questionnaires issued initially. The data was also examined to determine if Sacco size had a significant impact on the reported performance measures. The Saccos were sorted into two groups by size (less than Kshs 100 million and more than Kshs 500 million Total assets) and the performance ratings for each of the size groups were tested using ANOVA. This test indicated that size effects were not significant within the sample (*F-ratio* was less than *F-limit*).

The job title was used to test respondent bias by calculating the response to a question by identifying whether the person completing the questionnaire was the Chief Executive Officers, Human Resource Managers, Finance Managers, Internal Auditors, Tellers, ICT Managers, Clerks, Cashiers, Marketing Officers and Credit Officers. The distribution of responses indicated that pass-on respondent bias was minimal, as for instance, 7 of the 8 CEOs who were issued with the questionnaire completed it.

On the respondent years of service, the study established that the range was between 3 years and 26 years, with a mean of 8 years and that the respondents Saccos had been implementing strategic plans for an average of five years. This shows that the majority of the respondents had stayed long enough in their respective Saccos to provide credible information on the subject of study.

##### **4.3 Performance Trend**

The researcher sought to find out whether the annual change in the performance of Saccos correlate to the pursuit of generic strategies over the same period. The analysis in Table 2 showed that the percentage change in all performance indicators except for the number of employees increased. However, the percentage marginal decrease in the number of employees was an indicator of a positive effect of strategies implemented by the Saccos over the period. The Cronbach alpha for the performance scale was 0.9611. This compares favorably to previous related research using this scale to measure organizational performance of 0.93 (Allen *et al*, 2006).

**Table 2. Annual % Change in the Performance of Saccos in Murang'a County**

	2011	2012	2013
	% Change	% Change	% Change
Dividend Rate %	0.5	0.7	0.9
Loans to members	17.83	23.13	24.6
Branches	13.2	13.8	15.2
Employees	14.3	11.9	10.0
Share capital	4.19	6.32	7.15
Total Assets	16.87	20.24	21.90
Membership	1.37	4.45	7.10

Source: Ministry of Cooperative Development and Marketing: *Saccos Annual Performance Report, Murang'a District (2013)*

**4.4 Descriptive Analysis**

Mean scores were computed respondents' level of agreement on cost leadership, differentiation and focus strategies. A mean score of 5.0 being the highest and 1.0 the lowest.

**Cost Leadership Strategy Mean scores:** From the mean score analysis, the study found that the majority agreed that Saccos Price their products/services below competitors to outperform them as shown by a mean of 4.3214, Saccos has efficient and low cost distribution channels as shown by mean of 4.1429, Saccos acquires capital from low cost sources as shown by mean of 4.0714, Saccos out sources non-core functions or enters into joint ventures to control cost as shown by mean of 3.9821, Saccos emphasizes on training, education, and institutional learning to ensure a pool of highly trained and experienced personnel in order to reduce staff turnover, wastage and defects as shown by mean of 3.9286 and Saccos continuously develops cost effective and innovative services/products and refines existing ones as indicated by mean of 3.8750. Respondents were not sure on whether Saccos achieves Economies of scale through lending to groups and extensive mass mobilization of members to build a large customer base as indicated by mean of 3.1250. The above findings are supported by good standard deviation of 0.8524 which indicate a small spread of data around the mean.

**Table 3. Cost Leadership Strategy Competitive Practices Mean Scores**

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	Std deviation
The Sacco Prices its products/services below competitors to outperform them	0	0	5	55	36	4.3214	.57547
The Sacco has an efficient and low cost distribution channels	2	2	2	66	24	4.1429	.69879
The Sacco achieves Economies of scale through lending to groups and extensive mass mobilization of members to build a large customer base	12	27	12	26	19	3.1250	1.36265
The Sacco acquires its capital from low cost sources	3	0	10	55	28	4.0714	.84975
The Sacco continuously develops cost effective and innovative services/ products and refines existing ones	0	10	7	64	15	3.8750	.81044
The Sacco emphasizes on training, education, and institutional learning in order to reduce staff turnover, wastage and defects	2	5	12	57	20	3.9286	.84975
The Sacco out sources non-core functions or enters into joint ventures to control cost	3	0	12	60	21	3.9821	.82000

**Overall Mean=3.921 Standard Deviation=0.8524**

**Differentiation Strategy Mean Scores:** The study sought to know the respondent level of agreement on various statements relating differentiation strategy adopted by Saccos. From the findings, based on the Likert scales used, the study established that majority of the respondents were not sure that Saccos maintain a strong brand /image identification of themselves and their products/services as indicated by mean 3.3929, Saccos offers a broad service/product range to cater for varied needs as shown by mean 2.9464, Saccos have Strong branch networks as a Differentiation strategy as indicated by mean of 2.9107, There is innovation in technology to differentiate Services/products; to control resources and to schedule operations as indicated by mean of 2.6250 and there are strict service/product quality control procedures through TQM practices as shown by mean of 2.6071. Respondents disagreed that Saccos invests in Innovation and creativity in marketing techniques and methods as shown by mean of 2.3393.

**Table 4. Differentiation Strategy Competitive Practices Mean Scores**

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	Std deviation
The Sacco maintain a strong brand /image identification	5	19	14	50	9	3.3929	1.07329
The Sacco invests in Innovation and creativity	27	36	5	27	0	2.3393	1.17978
The Sacco has a Strong branch	7	34	22	26	7		



network as a Differentiation strategy						2.9107	1.10003
There is innovation in technology to differentiate Services/ products;	14	38	17	26	2	2.6250	1.08816
The Sacco offers a broad service/ product range to cater for varied needs	5	34	22	29	5	2.9464	1.05175
The Sacco frequently develop new products/services	12	34	19	26	5	2.7679	1.14401
There are strict service/product quality control procedures through TQM	12	46	9	26	3	2.6071	1.12296

**Overall Mean=2.7985Standard Deviation=1.1086**

**Focus Strategy Mean Scores:** The study sought to know the respondents opinions on various statements related to focus strategy. From the mean score analysis in Table 5, most of the respondents were not sure that Sacco only serves specific customer segments as shown by mean 2.8071, Sacco only serves a specific geographic market as indicated by mean of 2.5929, Sacco only serves a specific product market as indicated by mean of 2.5036 and Sacco offers a narrow, limited range of services/products as indicated by mean of 2.5179. Respondents further disagreed that Services/products are offered in lower priced markets as a Focus strategy as shown by mean of 2.0714.

**Table 5.Focus Strategy Competitive Practices Mean Scores**

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	Std deviation
The Sacco offers a narrow, limited range of services/products	14	46	10	24	2	2.5179	1.07857
Services/products are offered in lower priced markets as a Focus strategy	27	34	10	15	9	2.4107	1.30421
The Sacco only serves a specific geographic market	12	33	10	36	5	2.5929	1.20119
The Sacco only serves a specific product market	12	36	12	31	5	2.5036	1.18198
The Sacco only serves a specific customer segment	12	29	9	29	17	2.8071	1.35752
The Sacco has special products /services for specific target markets	31	45	3	17	0	2.0714	1.04198

**Overall Mean=2.4839Standard Deviation=1.1942**

#### 4.5 Correlations Analysis

The researcher also conducted a sample correlation coefficient R, the value of R is 0.718 which show that there is a strong relationship between the study variables.

**Table 6.Correlation Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718 <sup>a</sup>	.601	.749	.68133

Also from the Table 6 the adjusted coefficient of determination R<sup>2</sup> is 0.749, this shows that there is variation of 74.9% in the performance of Saccos due to change in cost leadership, differentiation and focus strategy. This indicates the explanatory power or the goodness-of-fit of the research model where most of the variance is explained leaving only a small percentage unexplained. In the table 4.9, 74.9% of the variance in the Sacco performance is explained by the cost leadership, differentiation and focus strategies leaving only 24.1% unexplained. This numerical evidence was strong enough in support of a strong relationship between the study variables.

#### 4.6 Pearson Correlation Coefficient Analysis

Table 7 indicates the Pearson Correlation Coefficient matrix between generic strategies and performance of Saccos. According to the table, there is a strong positive relationship between performance of Saccos and Cost leadership strategy, Differentiation strategy and Focus strategy of magnitude 0.894, 0.855 and 0.752 respectively. From Table 7Cost leadership strategies was found to have the strongest positive relationship with performance of Saccos compared to Differentiation strategy or Focus strategy. The strong positive relationship of Cost leadership, differentiation and focus strategies with performance of Saccos was found to be statistically significant with a P value of 0.028, 0.034 and 0.047 respectively which is less than 0.05.

**Table 7. Pearson Correlation Coefficient Matrix**

		Performance of Saccos	Cost leadership strategy	Differentiation strategy	Focus strategy
Performance of Saccos	Pearson Correlation	1	.894*	.855	.752
	Significance		.028	.034	.047
Cost leadership strategy	Pearson Correlation	.894*	1	-.120	-.390**
	Significance	.028		.379	.003
Differentiation strategy	Pearson Correlation	.855	-.120	1	.025
	Significance	.034	.379		.853
Focus strategy	Pearson Correlation	.752	-.390**	.025	1
	Significance	.047	.003	.853	

\*=significance at p<0.05

#### 4.7 Multiple Regression Analysis

The researcher conducted a multiple linear regression analysis so as to determine the relationship between performance of Saccos and the three generic strategies; cost leadership strategy, differentiation and focus strategy.

**Table 8. Multiple Regression Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.111	.954		4.307	0.000
	Cost leadership strategy	.182	.086	.280	2.112	<b>0.040</b>
	Differentiation strategy	.149	.175	.123	.854	0.042
	Focus strategy	.002	.093	.003	.023	0.049

On how the generic strategies, namely: cost leadership ( $X_1$ ) and differentiation ( $X_2$ ) and focus strategy ( $X_3$ ) predict performance ( $Y$ ), the values of the regression equation

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$  was:

$$Y = 4.111 + 0.182X_1 + 0.149X_2 + 0.002X_3 + \epsilon$$

From the equation, taking all factors (focus strategy, cost leadership strategy and differentiation) constant at zero, the Saccos performance was **4.111**. Likewise, taking all other independent variables at zero, a unit increase in Cost leadership strategy would lead to a **0.182**, a unit increase in Differentiation strategy would lead to a **0.149** increase in performance and a unit increase in Focus strategy would lead to a **0.002** increase in performance. The regression analysis also found that cost leadership, differentiation and focus strategies to have statistical significance of 0.040, 0.042 and 0.049 respectively. This infers that focus strategy, cost leadership strategy and differentiation strategy can positively predict effect performance of Saccos.

#### V. Conclusion

The study found that Saccos pursue generic strategies as identified by Porter (1980) and the competitive practices used conform to the generic strategy types. This supports earlier findings by Allen et al (2006), Thompson et al. (2008) and Datta (2009) who contends that Generic strategies can successfully be linked to organizational performance through the use of key strategic practices. Also, from the data analysis and interpretation, the researcher found a positive relationship between generic strategies and performance. Then,

the researcher concludes that generic strategies have a strong predictive effect on performance of Saccos; with cost leadership having the greatest effect. Therefore cost leadership strategy can help a Sacco to realize the most statistically significant superior performance when compared to Saccos pursuing differentiation or focus strategies. In this regard, if a Sacco wants to perform at a significantly higher level than competitors, one should excel cost leadership strategy identified in this study. The study also uncovered and matched key competitive practices that define each generic strategy better and identified critical competitive practices strongly associated with performance for each generic strategy. From this analysis, the study concludes that it is possible for a Sacco to pursue competitive practices associated with different generic strategy types and realize superior performance. This can be by pursuing competitive practices with the highest mean. These findings support much of the popular literature and discussions on the effects of generic strategies on optimal performance of organizations (Allen et al., 2006)

The study covered a three-year period based on performance measures used. Future research can use a longitudinal research design to determine how competitive practices emphasis changes throughout the course of an economic cycle. This would provide a basis for assessing performance differences between Saccos that pursue consistent strategies compared to those that change strategies based on prevailing economic conditions.

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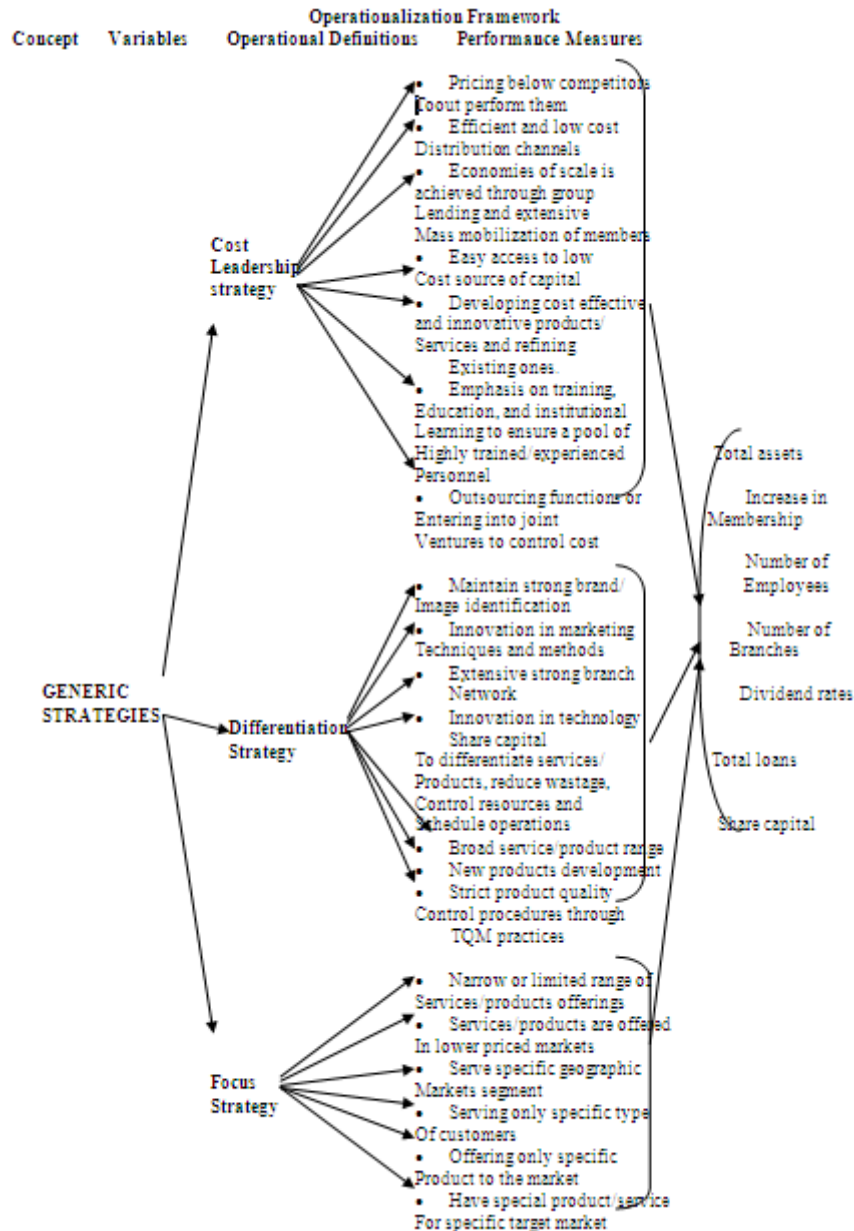


Figure 3. Operationalization framework