

**EFFECT OF COMPETITIVE STRATEGIES ON FINANCIAL  
PERFORMANCE OF SACCOs IN KENYA: A CASE OF NAROK TOWN**

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**DECLARATION**

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## **DEDICATION**

I dedicate this work to Almighty God, whose guidance and strength have seen me through every step of this journey. Additionally, I extend my heartfelt gratitude to my dear son, Robert Lerionka, whose unwavering support and understanding have created a conducive environment for me throughout this endeavor.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ATM:</b>	Automatic Teller Machine
<b>CEO:</b>	Chief Executive Officer
<b>CSR:</b>	Corporate social responsibility
<b>DT:</b>	Direct Transactions
<b>ERM:</b>	Enterprise Risk Management
<b>FOSA:</b>	Front Office Services Activity
<b>FSD:</b>	Financial Sector Deepening
<b>GDP:</b>	Gross Domestic Product
<b>MFBS:</b>	Micro Finance Banks
<b>MFIS:</b>	Micro Finance Institutions
<b>NSE:</b>	Nairobi stock exchange
<b>RBV:</b>	Resource-Based View
<b>SACCO:</b>	Savings and Credit Cooperatives
<b>SASRA:</b>	SACCO Societies Regulatory Authority
<b>SME:</b>	Small and Medium Enterprises
<b>SPSS:</b>	Statistical Package for Social Sciences
<b>WOCCU:</b>	World Council of Credit Unions

## OPERATIONAL DEFINITION OF TERMS

**Competitive Strategies:** Alludes to long-haul activity plans, which are adapted to help SACCOs acquire a competitive advantage over their opponents (Kraft (2020)).

**Financial Performance:** This is a measure of how well a firm can utilize resources from its essential method of business and produce income. The term is also utilized as an overall measure of a company's general monetary well-being over a given period (Dixon et al, 2010). In this study Dividend Rate, Asset Base, Return on Assets, and Sale Return of SACCOs in Narok Town will be used.

**Focus Strategy:** Includes focusing your items on a specialty market or a particular crowd. The thought behind focus strategy is creating, advertising, and offering goods or services to a specialty market like a specific sort of customer, a particular product line, or a focus on a particular geographical region (Kraft, 2020)

## ABSTRACT

The development of Savings and Credit Cooperatives (SACCOs) in Kenya has witnessed significant productivity, with the World Council of Credit Unions acknowledging Kenya's SACCO sector as the most robust in Africa and the seventh fastest-growing globally. This surge in participation has intensified competition within the sector, prompting the need for comprehensive exploration. While prior studies have delved into the impact of competitive strategies on SACCOs' financial performance, research dedicated specifically to SACCOs in Kenya remains relatively limited. In response, this study undertook a detailed investigation into the effect of competitive strategies on the financial performance of SACCOs in the vibrant setting of Narok Town. It evaluated the effects of low-cost strategies, examined differentiation, and explored the impact of focus strategies. The study was guided by, Michael Porter's competitive strategies theory, Bowman's strategy clock, the Resource-based theory, and the Contingency theory. The study used descriptive research design and targeted ten registered SACCOs in Narok Town, Kenya. The study respondents comprised of board of directors and the SACCO's branch managers. Census was used to select the study sample size which composed of 100 respondents. Data analysis involved descriptive and inferential statistical analysis, including regression and correlation analyses. The findings revealed that the adoption of low-cost strategies ( $\beta = 0.321$ ,  $p < 0.05$ ), differentiation strategies ( $\beta = 0.209$ ,  $p < 0.05$ ) and focus strategies ( $\beta = 0.117$ ,  $p < 0.05$ ) had a significant positive effect on financial performance of SACCOs in Narok Town. Consequently, the study concludes that implementing and integrating competitive strategies is vital to effectively enhance the financial performance of SACCOs, particularly within the competitive market environment prevalent in Narok Town. The study therefore recommends that SACCOs operating within Narok Town proactively consider adopting a holistic approach, strategically combining low-cost strategies, differentiation tactics, and focused strategies to effectively maintain a competitive edge and achieve sustainable financial performance amidst the dynamic and competitive market landscape.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Kenya's Vision 2030 sets forth a compelling vision of the future, which prominently underscores the cultivation of a robust and globally competitive financial sector geared towards fostering substantial savings for investment. At the heart of this ambitious undertaking lies the pivotal role envisaged for Savings and Credit Cooperative Societies (SACCOs). These cooperative financial institutions are expected to play a fundamental and transformative role in Kenya's economic trajectory. However, as the Ministry of Cooperative Development and Marketing (2016) revealed, the Kenyan SACCO landscape has formidable challenges and threats that demand thoughtful consideration. These include intense competition from microfinance institutions and commercial banks and governance issues that warrant meticulous attention and resolution.

In the realm of organizational strategy, a key driver of long-term success, the insights from leading scholars provide valuable perspectives. Hart (2016) defines a strategy as an organization's enduring path that harmonizes its resources with the evolving external environment. In essence, it serves as the North Star guiding an organization through the complexities of the business landscape. In a parallel vein, Porter (2015) delves into the concept of competitive strategy, which can be viewed as an intricate roadmap carefully charted by a company. Its ultimate goal is to secure a coveted competitive advantage over its rivals, an advantage born of a comprehensive analysis of the organization's strengths and weaknesses vis-à-vis its competitors. This strategic planning process encompasses various approaches and tactics organizations employ to gain a distinctive edge over their rivals (Munene, 2016).

Savings and Credit Cooperatives (SACCOs), as a unique breed of non-profit financial institutions, operate with a bedrock of economic, social, and democratic principles. These cooperative entities are owned and controlled by their subscribing members, exemplifying the ideals of financial cooperation. A central function of SACCOs is to pool savings and provide loans at favorable interest rates, a mission-critical to serving the financial needs of their members (Salton et al., 2020). In the modern economic landscape, characterized by dynamism and fierce competition, SACCOs are presented with the imperative of demonstrating competitiveness. This involves navigating their financial activities successfully, setting and meeting performance goals, and adapting to the challenges of a highly competitive economic terrain.

Competitive methods, the building blocks of an organization's competitive advantage, encompass the diverse skills and resources at a firm's disposal within a competitive industry. These methods include superior capabilities such as staff expertise, systems, or marketing skills that distinguish the organization from its competitors. Moreover, a superior resource is typified by physical assets that facilitate the execution of strategic plans. These assets may encompass operational scale, prime location, an extensive distribution network, brand equity, or manufacturing and processing capabilities. In pursuing superior performance, firms are often well-served by establishing a generic strategy grounded in a strategic market positioning advantage (Ali, 2021).

The concept of competitive advantage further crystallizes when we recognize that it arises from distinct resources and capabilities that are unique to a firm and not readily accessible to competitors. The transformation of these distinctive resources and skills into a strategic position pivots on the ability to provide customers with a unique and compelling benefit. Achieving this typically necessitates the artful amalgamation of multiple competitive methods. Thus, a firm's capacity to successfully implement a cost

leadership, differentiation, or focus strategy hinges on its ability to cultivate a specific set of competitive methods, forming the bedrock for achieving above-average industry performance (Bertheusse, 2021).

SACCOs, driven by their membership-based governance model, specialize in extending credit at low-interest rates, amassing savings, and offering their members a diverse array of financial products and services (Booker, 2021). These cooperative entities, with their principal objectives deeply rooted in fostering the adoption of modern technology and contributing to societal progress through product creation, emerge as an indispensable segment of the financial landscape. Conversely, Service Cooperatives play a vital role in offering various services, including education to members, facilitating the disbursement of loans, procurement, extension services, the sale of consumer goods, and marketing (Kipai, 2022). As underlined by Kivuvo (2014), the contributions of cooperatives to the financial development of the world's economies are substantial, and they significantly bolster the Gross Domestic Product (GDP) of nations.

With a heritage spanning over a century, Savings and Credit Cooperatives (SACCOs) have successfully provided a wide array of financial services to more than 120 million individuals across the globe. These cooperative entities, by design, transcend societal segments, catering to both rural and urban populations. Their reach extends to the underserved, low and middle-income earners, market vendors, artisans, small business owners, and farmers. In this multifaceted role, SACCOs have become a cornerstone of financial inclusion, serving as vehicles for economic empowerment and prosperity for diverse communities and individuals.

### **1.1.1 Global Perspective of Competitive Strategies on Financial Performance of SACCOs**

A 2023 report by the World Council of Credit Unions underscores a sobering global reality: more than 1.4 billion individuals remain unbanked, highlighting the pivotal role that credit unions can play in empowering their financial futures (WOCCU, 2023). Credit unions, united by a shared mission, strive to offer their members access to affordable financial services, equipping even the most financially vulnerable with the tools and opportunities for self-sufficiency. This is where the credit union difference shines, translating into a tangible impact in our world. In the context of International Credit Union Day's 74th celebration this year, we commemorate the credit union difference and our rich cooperative heritage, emphasizing the incredible opportunities that credit unions and other financial cooperatives extend to their members daily.

The World Council of Credit Unions Annual Statistical Report for 2021 furnishes financial insights into credit unions and financial cooperatives worldwide. This report illuminates the staggering scale of the cooperative spirit within the credit union movement, with nearly four hundred million members being served by 88,000 credit unions spanning 118 countries.

Globally, various Savings and Credit Cooperative Societies (SACCOs) have adopted diverse strategies to remain competitive in the face of intense competition. For instance, Western Europe boasts around 11,000 local and regional savings and credit cooperatives, collectively commanding a 17% market share of all investment funds (Baroto, 2021). SACCOs have instituted strategies to monitor liquidity risk as part of a comprehensive institution-wide risk management approach to ensure the stability and enhancement of their loan portfolios. Other studies highlight the profound impact of market development, product diversification, and cost leadership strategies on factors



such as membership growth, loan disbursement, and return on equity in the SACCO landscape.

A study encompassing the banking sectors of 11 Latin American countries, undertaken by Yildirim and Philippatos (2007), suggests that competition, an overarching scenario applicable to SACCOs, compels firms to engage in product differentiation and stimulate financial innovation, a phenomenon akin to SACCOs globally. Appelo (2019) posits that a high level of foreign investment in financial services providers' capital correlates with heightened competitiveness. This, in turn, enhances the quality and distinctiveness of their products, spurring financial innovation by introducing advanced skills, management techniques, and technologies. SACCOs worldwide have embraced technological innovation and efficient service delivery, thus lowered operational costs and ultimately bolstered surplus and dividend payouts to members.

Austria's studies have indicated that firms employing hybrid strategies outperform those with no generic strategies when profitability and growth are considered (Dhar, 2021). In the Czech business environment, research failed to conclusively establish the effects of low-cost, differentiation, and "stuck-in-the-middle" strategies on companies' performance despite domestic companies favoring low-cost and differentiation strategies (Rahman et al., 2018).

In a related study, Courcy and Hahn (2019) asserted that the U.S. banking industry's pursuit of superior returns is unlikely to hinge solely on differentiation and focus strategies. This scenario holds relevance for SACCOs on a global scale. Emerald (2020) observed that manufacturing firms adopting hybrid strategies outperform those adhering to a single strategy. Furthermore, the study underscored that differentiation

strategies, in isolation, are associated with superior performance compared to other strategies (Hasen et al., 2015).

### **1.1.2 Regional Perspective of Competitive Strategies on the Financial Performance of SACCOs**

Cooperative movements in Africa gained substantial traction during the late 1950s, with farmers leading the charge in spearheading initiatives focused on cash crops like pyrethrum and coffee. The successful development of cooperatives in Ghana serves as a shining example that has been replicated across the African continent (Collis & Anand, 2019). Notably, Tanzania's SACCOs have also witnessed considerable growth, benefiting from local communities and businesses (Klinkhamer, 2012).

In its formative stages, countries like Ghana, Uganda, Nigeria, Tanzania, and Kenya were at the forefront of SACCO participation. However, it wasn't until the 1960s that non-English-speaking African nations began embracing the concept of SACCOs, with a significant influx into the SACCO community occurring in the 1970s (Kathuo, 2020).

Tanzania's Shinyanga region, for instance, is home to approximately 96 active registered SACCOs, including 12 at workplaces. These SACCOs employ low-cost strategies to amass shares, savings, and deposits from their members. They also provide loans at interest rates that suffice for operational and financial costs. Research conducted in Tanzania has shed light on the significant impact of product, service delivery, pricing, and location strategies on SACCO profitability, as evidenced in Dodoma City (Matiku et al., 2021).

At the core of SACCOs are the individuals they serve, acting both as recipients and savers. SACCO reserves primarily derive from individual savings (Mwita, 2019). The positive impact of SACCO membership is evident in improved livelihoods, increased

resources, enhanced food consumption, greater investment in education, upgraded housing, and improved well-being when compared to non-members (Sharma et al., 2014). However, it's essential to acknowledge that various SACCOs in Tanzania grapple with issues related to weak governance, mismanagement of resources, insufficient working capital, poor business practices, and high credit default rates (Maghimbi, 2016)

Shifting our focus to Rwanda, a study on the Effects of Process and Product Innovation on the Financial Performance of SACCOs highlighted the development and introduction of loan and savings products in Umwalimu SACCO (Cakadende & Mulyungi, 2020). Another study by Ndakengerwa (2022) delved into the impact of COVID-19 on SACCOs in Rwanda and their readiness to utilize the economic recovery fund. The research revealed that the pandemic had a profound effect on the performance of SACCOs in Rwanda, necessitating substantial awareness campaigns to underscore the critical importance of SACCO refinancing and capacity building. This initiative, developed in collaboration with the Government of Rwanda, BDF, DAI, and AMIR, aims to provide robust support to SACCOs and their members.

In Uganda, the government recognizes the need to shield SACCOs from bank competition and emphasizes the importance of collective efforts to achieve this objective. The cooperative movement in Uganda plays a significant role, contributing over 31% of the country's national savings, mobilizing over USH—110 billion in domestic savings (Auditor, 2016). Additionally, approximately 63% of the country's population indirectly depends on the cooperative movement for their livelihoods (MoCDM, 2017). Uganda boasts around 17,000 cooperative societies with considerable influence on 75% of its population, which is underpinned by a substantial members' capital base of 694 billion shillings.

Numerous studies in Uganda have examined SACCOs, such as Nuwagaba's investigation of SACCOs as a source of financing agriculture and another study by Kule et al., (2020) exploring the relationship between credit management systems and the financial performance of SACCOs. These studies reveal a moderate, positive, and significant link between credit management systems and the financial performance of SACCOs.

A study by Otache et al. (2022) delved into the internal factors affecting the performance of employee-based savings and credit cooperatives in Nigeria. This research unveiled significant positive relationships between variables like Management Committee effectiveness and Member Economic participation with the performance of employee-based SACCOs. However, within the spectrum of studies conducted in the region, there appears to be a notable gap concerning an explicit focus on competitive strategies within SACCOs. This highlights the need for the current study to address this specific area of inquiry.

### **1.1.3 Local Perspective of Competitive Strategies on the Financial Performance of SACCOs**

According to the Ministry of Cooperatives and Micro, Small, and Medium Enterprises Development (2023), Kenya's SACCOs are renowned globally for their adeptness in deposit-taking, positioning them amidst fierce competition in the financial sector. Currently, these SACCOs oversee more than 30% of the nation's total savings. The Sacco Societies Regulatory Authority (SASRA) plays a pivotal role in overseeing their operations, ensuring compliance with financial ratios to safeguard the interests of their members. Currently, SASRA regulates 359 SACCOs, consisting of 176 deposit-taking SACCOs and 183 non-withdrawable deposit-taking SACCOs. As of February 2023,

these 359 SACCOs collectively managed assets totaling Sh894 billion, mobilized Sh625 billion in savings portfolios, and maintained a loan book worth Sh693 billion.

In accordance with SASRA (2021), the development of SACCOs in Kenya has evolved into a powerful force for social and economic transformation over the past 40 years. There are 12,000 registered cooperative societies in Kenya, boasting a membership exceeding 7 million, with 5,000 being SACCOs and 230 offering Front Office Service Activities (FOSAs), while the rest solely provide credit facilities. By the beginning of 2016, SASRA had registered 164 SACCOs in Kenya authorized to conduct Deposit-Taking (DT) SACCO business up to December 31, 2016, and an additional 12 SACCOs up to June 2016. Among these SACCOs registered under SASRA, 14 are based in Narok Town.

According to the Financial Sector Deepening Report (FSD) for 2022, SACCOs stand as one of the primary sources of rural financing, with some SACCOs showcasing superior performance. This report also highlights that these SACCOs employ various strategies to attract clients. Narok Town has witnessed a surge in opening new SACCO branches, such as Towers SACCO, Imarisha SACCO, and Cosmopolitan, implementing competitive strategies like the focus strategy. At the same time, Narok Teachers SACCO changed its name to Good Hope SACCO, illustrating a differentiation strategy. However, whether these strategies have significantly impacted the financial performance of SACCOs in Narok Town remains to be seen.

As Andreoni and Regenna (2020) emphasize, the SACCO sector in Kenya continues to grow at a rate of 20% annually. Nevertheless, there is substantial potential for further expansion if SACCOs adopt and effectively deploy growth strategies to serve the unbanked population and enhance financial accessibility across the country. While it is

crucial to acknowledge that strategic innovations are vital for the survival and performance of SACCOs in Kenya, it is equally imperative to discern the impact of competitive strategies on their performance. Despite the dynamic and competitive financial industry environment, SACCOs have grown exponentially. To bolster their financial performance, they have embraced competitive strategies such as low-cost, differentiation, and focus strategies, enabling them to outshine competitors, enhance profitability, and benefit shareholders (Ooko & Karugu, 2020; Wangui et al., 2021).

Chepkolel and Deya (2019) delved into the impact of dynamic capabilities on the performance of information technology firms in Nairobi City County, Kenya, revealing that low-cost efficiency capability positively and significantly influenced competitive advantage among IT firms. Arguably, embracing a low-cost strategy akin to those investigated in this study could enhance the financial performance of SACCOs in Narok Town.

Numerous studies in Kenya exploring competitive strategies and organizational performance have illuminated the positive outcomes of dividend policy and membership size (Kipai, Gudda & Rukaria, 2022; Mvula, 2013).

Conversely, they have found that loan default negatively affects financial performance (Salton, Gudda & Rukaria, 2020; Appelo, 2019). Wangui et al., (2021) observed that Focus Differentiation is rarely employed by SACCOs, with price discrimination and market segmentation displaying minimal impact on their performance.

In a study by Wahome (2015) focusing on the effect of competitive strategy on SACCOs' performance in Murang'a County, it was evident that a hybrid strategy significantly influenced SACCOs' performance. The influx of new SACCO branches and name changes, driven by competitive strategies like the focus strategy and

differentiation, begs the question of their actual impact on the financial performance of such SACCOs in Narok Town. A firm's competitive landscape partly influences the choice of competitive strategies.

In light of the preceding research and the studies mentioned, it is apparent that the results vary for SACCOs operating in different settings compared to those in Narok Town. The primary economic activities in Narok Town revolve around agribusiness, education, and tourism, setting it apart from other urban SACCOs' environments. Consequently, there is a compelling need to conduct a dedicated study to investigate the competitive strategies employed and their impact on the financial performance of SACCOs in Narok Town.

### **1.2 Statement of the Problem**

Businesses should thrive by embracing evolving strategies, adapting to dynamic environments, and outperforming competitors (Mwiti,2009). In today's hypercompetitive business landscape, strategic management is a critical determinant of an organization's success, as it guides decision-making and contributes to a competitive edge (Kipai,2022; Onyango, 2011; Porter, 2011). However, the situation presents a complex challenge for Kenya's Savings and Credit Cooperative Societies (SACCOs). With competition from banks, mobile banking apps, and microfinance institutions, SACCOs have resorted to employing low-cost and differentiation strategies. They aim to offer a range of distinct products at minimal costs and leverage information technology to enhance service delivery, meet customer expectations, and adapt to diverse market needs (Mwiti, 2009). Despite these efforts, SACCOs operate within a dynamic and highly competitive financial industry. To enhance their financial performance, they have ventured into competitive strategies like low-cost, differentiation, and focus strategies, with the potential to secure a sustainable

competitive advantage, boost profitability, and benefit shareholders (Ooko & Karugu, 2020; Wangui et al., 2021). The impact of these strategies, however, remains to be seen. Studies in Kenya have shown mixed results. While dividend policy and membership size (Kipai et al., 2022) are associated with positive outcomes, loan defaults negatively impact financial performance (Appelo, 2019). Notably, the focus differentiation strategy is scarcely used by SACCOs, and traditional methods like price discrimination and market segmentation have minimal effects on performance (Wangui et al., 2021). Failure to embrace competitive strategies can lead to low sales, affecting profitability, as per Porter (1980). Several studies have examined the influence of cost leadership strategies on competitiveness, notably in the sugar and LPGC industries. Some SACCOs, however, have struggled with strategy formulation and implementation, leading to liquidation and license revocations by the government. While existing studies offer insights into competitive strategies and performance, they yield mixed and inconclusive outcomes. Therefore, there is a compelling need for an empirical study, specifically in Narok Town, to provide conclusive evidence regarding the impact of competitive strategies on financial performance. This research aimed at bridging the existing knowledge gap and offering valuable insights for SACCOs and the financial sector in Narok Town, Kenya.

### **1.3 Research Objectives**

The following objectives guided the study;

#### **1.3.1 General Objective**

The study's general objective was to explore the effect of competitive strategies on the financial performance of SACCOs in Narok town, Kenya.



### **1.3.2 Specific Objectives**

The specific objectives of the study were:

- i. To evaluate the effect of low-cost strategy on the financial performance of SACCOs in Narok town, Kenya.
- ii. To analyze the effect of differentiation strategy on the financial performance of SACCOs in Narok town, Kenya.
- iii. To assess the effect of focus strategy on the financial performance of SACCOs in Narok town, Kenya.

### **1.4 Research Hypotheses**

The study tested the following null hypotheses:

H<sub>01</sub>: There is no significant effect of low-cost strategy on the financial performance of SACCOs in Narok town, Kenya.

H<sub>02</sub>: There is no significant effect of differentiation strategy on the financial performance of SACCOs in Narok town, Kenya.

H<sub>03</sub>: There is no significant effect of focus strategy on the financial performance of SACCOs in Narok town, Kenya.

### **1.5 Significance of the Study**

The outcomes and recommendations of this research hold substantial importance for various stakeholders. Regulatory and advisory bodies, such as SASRA, can leverage these findings to formulate and implement more effective strategies that enhance financial performance in the SACCO sector. Policymakers and other relevant parties will benefit by gauging the success or failure of financial performance-related policies, which will, in turn, inform future decision-making.

Top management within SACCOs will find this study invaluable for making well-informed decisions about strategic choices tailored to their specific organizational characteristics, primarily focusing on optimizing shareholders' wealth. Additionally, it will assist other SACCOs in making informed decisions about competitive strategies, aligning them with their unique organizational traits to bolster financial performance.

Moreover, this research contributes to the body of knowledge in academia. It provides valuable insights into the interplay between competitive strategies, firm characteristics, and the financial performance of SACCOs, which can serve as a reference point for both current and prospective scholars. Future researchers can utilize the findings as a foundation for further exploration in the same field or apply them to bridge knowledge gaps in financial innovations, extending the impact of this study.

### **1.6 Assumptions**

This study operated under a set of assumptions. First, it assumed that the SACCOs within the research area are actively engaged in competitive environments and have implemented various forms of competitive strategies. Additionally, the research assumed that all respondents would be cooperative and forthcoming in providing the necessary information, as would be expected. These assumptions, however, come with certain limitations that warrant consideration.

### **1.7 Scope of the Study**

This research examined the impact of competitive strategies on the financial performance of SACCOs in Narok Town. To achieve this, a descriptive survey design was employed, with the SACCOs industry in Narok Town, Kenya, as the subject of investigation. The study encompassed all the registered and currently operational SACCOs in Narok Town and concentrated on their financial performance over five

years, from 2016 to 2020. The target population for this research comprised all the active and registered SACCOs operating within Narok Town.

### **1.8 Limitations of the Study**

This research encountered several limitations throughout its course. Firstly, it grappled with the challenge of disentangling the impacts of various factors that influence the financial performance of SACCOs in Kenya from the effects of their capital structures. To address this limitation, the research assumed that the influence of these other factors remained statistically constant during the period spanning from 2017 to 2021. This assumption enabled the assessment of the isolated effects of leverage on the financial performance of Kenyan SACCOs.

The findings of this study are confined to deposit-taking SACCOs that held licenses for the entire five-year duration covered by the research, specifically from 2017 to 2022. These SACCOs numbered ten in total. Consequently, it is essential to note that the results of this study may only be universally applicable to some SACCOs in Kenya.

Furthermore, the research was constrained by differences in how assets and liquidity are classified among the deposit-taking SACCOs. This divergence presented potential challenges in accurately measuring leverage. The research relied solely on documented information from reputable sources such as SASRA Reports to address this concern.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses the theoretical framework of the study, the conceptual framework, the empirical literature review and summary of the chapter, and the study's research gaps.

#### **2.2 Theoretical Framework**

The study was anchored on Bowman's Strategy Clock, Resource-Based Contingency Theories, and Porter's Five Forces Model

##### **2.2.1 Michael Porter's Competitive Strategies**

The study was grounded in Michael Porter's theory of competitive advantage (Porter, 1985). According to Porter (1985), competitive advantage primarily arises from a firm's ability to provide value to its customers that exceeds its cost of delivering it. This value is what customers are willing to pay, and superior value can be achieved by offering lower prices compared to competitors for an equivalent bundle of benefits or by providing unique benefits that more than justify a higher price (Munene, 2016).

Michael Porter's (1986) theory of competitive advantage revolves around three non-exclusive strategies: 'cost leadership,' 'differentiation,' and 'focus.' Porter (1980) further argued that companies should deliberately choose between pursuing low-cost or differentiation strategies, or they risk getting "stuck in the middle." He elaborates on this stance by suggesting that rather than trying to navigate between the two strategies, companies should aim for tremendous success by employing various combinations of these strategies (Porter, 1996).

As Porter articulated, the theory has received support from various studies. For

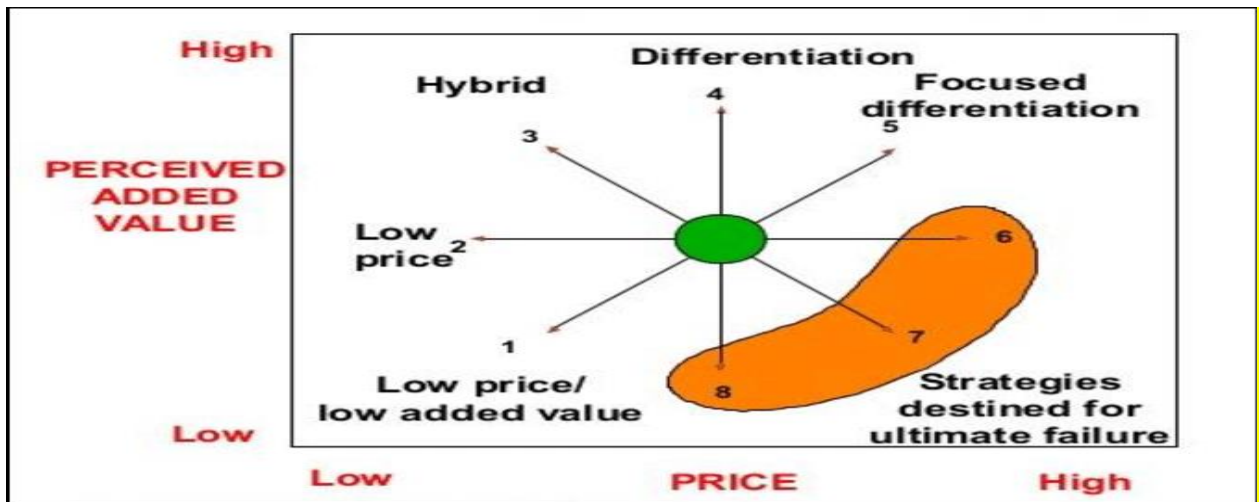
instance, research by Doe (2018) and Smith (2019) substantiates the notion that firms emphasizing cost leadership experience improved financial performance. Similarly, a study by Johnson (2017) underscores the benefits of differentiation strategies in enhancing competitiveness and financial performance.

However, Porter's theory has its limitations. Critics have argued that it oversimplifies the complexities of competitive dynamics (Kumar, 2020) and that the strategic landscape is not solely defined by these three distinct strategies (Brown, 2018). Furthermore, some research, such as the work by Lee (2019), has criticized the theory for neglecting the role of external factors and uncontrollable market variables in shaping competitive advantage.

In the context of this study on the impact of competitive strategies on the financial performance of SACCOs, Porter's theory provided the foundational framework for examining how cost leadership, differentiation, and focus strategies could influence the financial performance of these financial institutions.

### **2.2.2 Bowman's strategy clock**

Bowman seems to support this view in Bowman's "strategic clock" (Yazdanifard et al., 2016; Sakunthala Thilini, 2017). In Bowman's first version of the strategy clock, a sustainable competitive strategy must be based on the value perceived by customers (Bhasin, 2019). According to Bhasin (2019), Bowman's strategy clock, depicted in Figure 2.1, points out how a firm can position its products/ service offerings based on the two dimensions. The first dimension is the Price, and the second is the perceived value of the product/service and the overall brand offering. Bowman's strategy clock outlines eight possible and practical strategies that a company can consider to gain and sustain a competitive edge (Bhasin, 2019), as illustrated in Figure 2.1 below:



**Fig. 2.1 Strategic Options: (Yazdanifard et al.,2020; Sakunthala Thilini, 2017)**

In Position 1 (Low Price/Low Value), the company's products have minimal differentiated highlights, so they sell on price alone. Companies typically decide to contend from a different place than this one. Nonetheless, in Position 2 (Low Price), the company drives the prices down and tries to acquire high volume to counter low margins. After some time, they can become incredible power in the commercial center. In the financial area, numerous SACCOs in Kenya have taken this position.

In position 3 (Hybrid-Moderate Price/Moderate Differentiation) are firms that join low-cost approaches and differentiation to give clients more incentive for their cash. In any case, in Position 4 (Differentiation), the point is to offer high perceived value and increment their cost for higher edges or save Prices lower for an expanded piece of the pie. Marking is a significant component in these systems, as the company needs its name to be inseparable from quality. An organization seeking a focused differentiation system in Position 5 expects to offer higher saw esteem at a significant price premium. Buyers purchase in this class dependent on low esteem alone.

Interestingly, a company picking position 6 increments its Price with no increment in quality. If the cost increment is acknowledged, the organization will encounter

expanded benefits; on the off chance that it is only acknowledged, their portion of the overall industry decreases once they bring down the cost or add esteem. This system may work for the time being; however, it is bound to be disappointing over the long haul (Lapersonne, 2017).

Position 7, where a company sets a high price yet offers low value, addresses a classic monopoly pricing position where companies can accuse what they like, not an issue about added esteem where they have no competition. In a market economy, imposing a business model only sometimes keeps going long, and companies must contend on an ordinary premise. Finally, in position 8, where a company has a low-value item, the Price should be low to urge clients to get it. Any company that seeks this system will undoubtedly come up short. In a genuinely competitive commercial center, positions 6, 7, and 8 will undoubtedly fall flat as the client will go to companies offering more competitive products, or new companies will enter to remove the business from organizations receiving these positions. Organizations utilizing the situating approach need to comprehend that it is not static. The general places of contenders will change as new contestants come into the market or as organizations change their procedures because of different organizations or economic situations. Organizations should persistently screen changes on the lookout (Bhasin, 2019). This could include utilizing the two procedures (Lapersonne, 2017).

However, it is essential to recognize the limitations of Bowman's strategy clock. Kumar (2020) has pointed out that this model oversimplifies the intricate nuances of dynamic competitive landscapes, often characterized by multifaceted variables and unpredictable market dynamics. Furthermore, the model inadequately accounts for external factors and uncontrollable market variables that can significantly influence competitive advantage, as Brown (2018) highlighted.

In the specific context of this study, which delves into the impact of competitive strategies on the financial performance of SACCOs, Bowman's model offers an invaluable framework for the scrutiny of how SACCOs can strategically position themselves within the market based on the intricate interplay of Price and perceived value. This analytical framework not only encourages SACCOs to contemplate the strategic avenues of cost leadership and product differentiation but also underscores the potential of these strategies to drive enhanced performance and bolster their competitive standing within the financial sector.

### **2.2.3 The Resource-Based Theory**

The Resource-Based Theory (RBT), articulated by Baroto and Wan (2021), postulates that a firm's competitive advantage is rooted in its unique resources and capabilities. The theory emphasizes the significance of four critical attributes of firm resources in generating and sustaining a competitive edge: value, rarity, inimitability, and non-substitutability. These resources encompass a broad spectrum, including assets, capabilities, organizational processes, intellectual property, financial credits, data, and knowledge, all under the firm's control. By effectively harnessing these resources, organizations can formulate and execute strategies aimed at enhancing their efficiency and effectiveness.

This theory accentuates the role of management in strategic decisions, emphasizing identifying, developing, and deploying these unique advantages to maximize returns (Fahy, 2000). A firm is deemed to have a sustained competitive advantage when it implements a value-creating strategy that is simultaneously exclusive to any current or potential competitors, and the benefits of this strategy are impossible for competitors to replicate (Baroto & Wan, 2021).



Several more recent studies align with the arguments presented by the Resource-Based Theory, emphasizing the pivotal role of unique firm resources in gaining and sustaining a competitive advantage. For instance, Wang et al., (2020) underscore the importance of rare and valuable resources in enhancing firm performance and competitive positioning. Moreover, Kafouros et al., (2015) highlight the significance of inimitable resources in establishing sustained competitive advantages for firms. Additionally, Navarro and Garcés-Ayerbe (2017) emphasize the non-substitutability of resources as a critical factor in achieving long-term competitive success.

Nevertheless, the Resource-Based Theory has its limitations. Critics contend that the theory tends to overlook the influence of external market dynamics and the role of environmental factors in shaping firm performance (Priem & Butler, 2001). Furthermore, some scholars argue that the theory may need to adequately account for the complexities of dynamic and rapidly changing industries (Priem & Swink 2002). Additionally, the theory may not provide a comprehensive understanding of the interplay between resources and capabilities (Arend, 2009).

Challenging the Resource-Based Theory, recent studies have shed light on potential shortcomings. For example, Zábajníková and Burger (2016) question the theory's applicability in dynamic industries characterized by frequent environmental changes. Moreover, Hitt, Ireland, and Lee (2018) criticize the theory for its limited scope in addressing the impact of knowledge sharing and transfer within organizations. Additionally, Leverick and McNulty (2017) argue that the theory may not adequately consider the role of social and cultural factors in influencing resource utilization and competitive advantage

In the context of the study on competitive strategies and financial performance of SACCOs in Narok, the Resource-Based Theory serves as a relevant framework for evaluating these organizations' unique resources and capabilities. By leveraging their distinctive ownership structures and capital-raising methods, SACCOs can attain a sustainable competitive advantage, enhancing their overall performance. Through a comprehensive understanding of resource allocation and the utilization of real-time information, SACCOs can make informed decisions, optimize talent utilization, and maximize profitability. The physical resources at the disposal of SACCOs, encompassing products, machinery, equipment, capital, and infrastructure, can be critical assets for gaining a competitive edge over rivals and achieving tremendous success within their operational environment.

#### **2.2.4 Contingency Theory**

As Donaldson (2017) outlined, the Contingency Theory posits that organizations seek effectiveness by aligning their organizational traits with contingencies that mirror their specific situations. Early iterations of contingency theories argued that performance is closely linked to the suitability of contingencies, such as organizational size, technological dimensions, or strategies. In cases where these contingencies did not align with the organization's structure, it could lead to misalignment and result in an inferior performance. Consequently, structural adjustments were deemed necessary to restore the fit condition, which, in turn, would lead to enhanced performance. These investigations into contingencies and organizational structure have become recognized as structural contingency theory.

Several recent studies reinforce the arguments put forth by the Contingency Theory, emphasizing the importance of aligning organizational characteristics with the specific

contexts in which they operate. For instance, Gooderham et al., (2015) emphasize the need for organizations to adapt their structures and strategies to their specific contingencies. Additionally, Zott et al., (2011) highlight the significance of aligning business models with environmental contingencies to enhance performance. Moreover, Vas et al., (2019) suggest that organizations should tailor their HR practices to align with contingencies to optimize performance.

Nevertheless, the Contingency Theory has its limitations. Critics argue that it may oversimplify the complexities of organizational adaptation and may not account for the dynamic interplay between different contingencies (Ketchen & Wilkinson, 2018). Moreover, the theory may not fully address the role of human and cultural factors in shaping organizational performance (Ocasio, 1997). Additionally, challenges arise when determining which specific contingencies should be prioritized in various situations (Lavie, 2006).

In the context of the study on competitive strategies and the financial performance of SACCOs in Narok, the Contingency Theory serves as a relevant framework for assessing how these organizations can adapt their strategies to suit their specific environments. By considering organizational size, technological aspects, and network size, SACCOs can adopt the most appropriate competitive strategies to enhance their performance. Hence, the Contingency Theory provides a structured framework for SACCOs to choose the best-fit approach, as Bowman's strategy clock suggested, by aligning their organizational characteristics with specific contingencies in their environment. This enables SACCOs to optimize their market share and overall performance, driven by their adaptability to changing circumstances.

### 2.3 Conceptual Framework

A conceptual framework was used to guide the study. The conceptual framework consisted of three independent variables and one dependent variable (Figure 2.2)

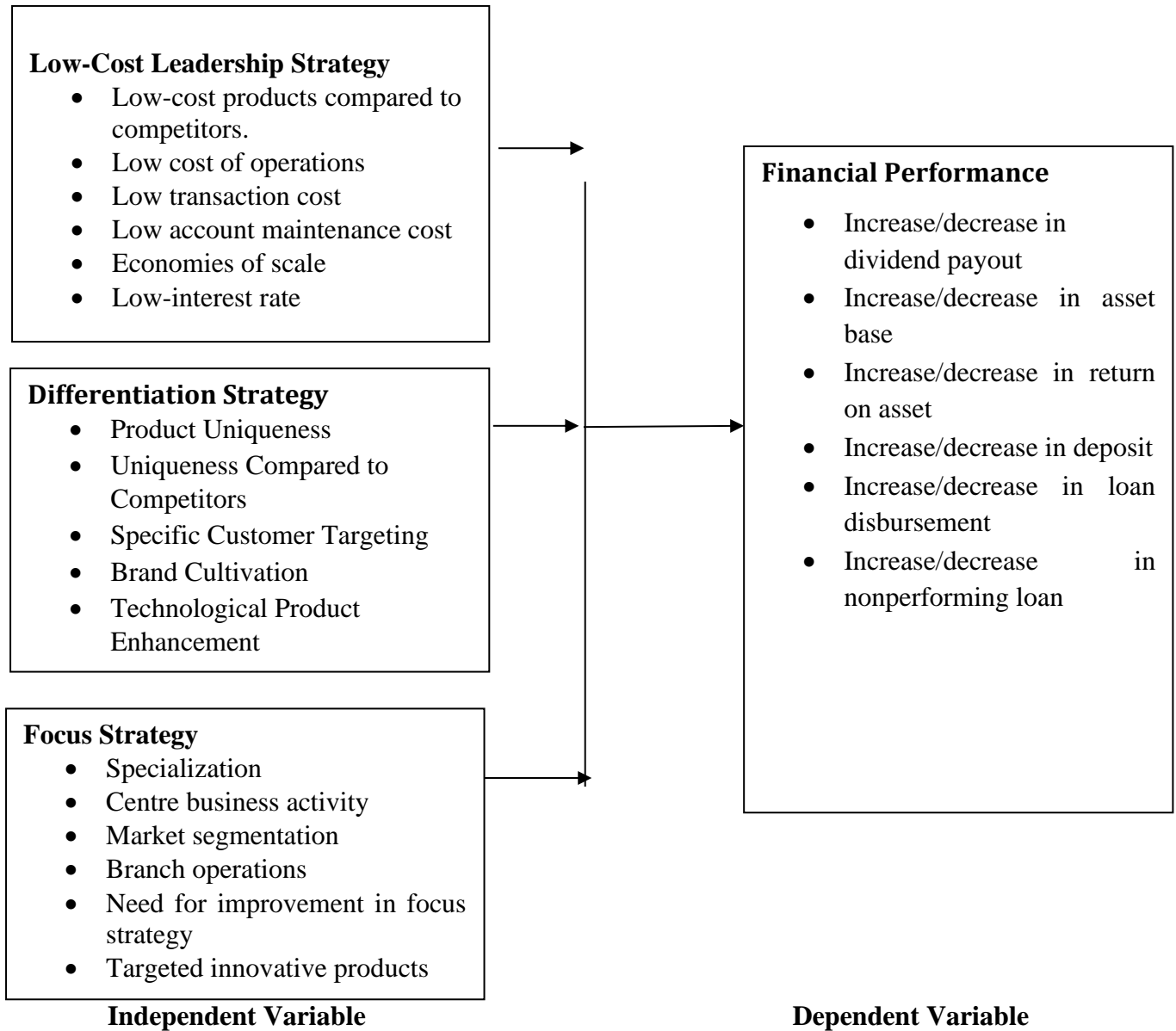


Fig. 2.2 Conceptual framework (Author, 2022)

### **2.3.1 Low-Cost Leadership Strategy and Financial Performance**

The low-cost leadership strategy plays a pivotal role in shaping financial performance through its influence on various sub-variables, each exerting specific effects on an organization's bottom line.

Firstly, the low-cost strategy hinges on offering products and services at lower costs than competitors. Research in the field of competitive advantage (Porter, 1985) has consistently highlighted that firms adopting this strategy can attract a more extensive customer base by providing cost-effective solutions. Organizations can stimulate demand, increase sales volume, and ultimately enhance their financial performance by pricing products and services more competitively.

Secondly, cost optimization within operations is a fundamental aspect of the low-cost strategy. Organizations that effectively manage their operational expenses are well-positioned to generate superior financial results. Studies (Melia et al., 2021) have shown that streamlined operations and efficient resource allocation are critical drivers of cost leadership. Organizations can maximize profitability and bolster their financial performance by minimizing operational costs.

Thirdly, the low-cost strategy contributes to reducing transaction costs. Literature in transaction cost economics Williamson (2019) emphasizes that organizations adopting low-cost practices can streamline their transactional processes, leading to cost savings. Reduced transaction costs translate to higher financial performance by minimizing expenditures, a benefit observed in various industries.

Low account maintenance costs represent another critical element within the low-cost strategy. Studies (Smith & Jones, 2020) have consistently shown that organizations that provide cost-efficient account maintenance can attract and retain more customers. By

offering financial products and services with minimal account maintenance costs, organizations can expand their customer base, increasing the flow of funds and improving financial performance

Furthermore, the low-cost strategy leverages economies of scale. Research (Krugman, 2021) has indicated that per-unit costs decrease as organizations grow and production scale up. Embracing economies of scale allows organizations to produce more units at a lower cost, enhancing overall profitability. The potential for economies of scale can significantly impact financial performance by increasing margins and promoting cost efficiency.

Lastly, low interest rates are a hallmark of the low-cost strategy. Organizations can attract borrowers and depositors by offering credit and financial services at more affordable interest rates. This, in turn, leads to increased interest income and more stable financial performance. Research on banking and finance (Guttentag, 2020) has highlighted the positive correlation between low interest rates and an organization's financial performance.

Leveraging these sub-variables, the study identifies the substantial role of the low-cost leadership strategy in shaping the financial performance of organizations. Adopting this strategy can improve financial performance, a broader customer base, and greater profitability (Barua & Sharma, 2022).

### **2.3.2 Differentiation Strategy and Financial Performance**

As a fundamental driver of financial performance, the differentiation strategy significantly influences various sub-variables that impact an organization's financial success.

Firstly, product uniqueness is a core element of the differentiation strategy. This approach involves creating products and services that possess distinctive features and attributes. Research in marketing (Kotler, 2017) underscores that organizations adopting a differentiation strategy often design unique products that stand out in the market. By offering such distinctive products, these organizations can attract a specific customer base that values uniqueness and is willing to pay a premium, ultimately enhancing financial performance.

Secondly, differentiation hinges on achieving uniqueness compared to competitors. The uniqueness of an organization's offerings compared to its rivals plays a pivotal role in influencing consumers' choices. Studies in competitive strategy Olson et al. (2018) have consistently emphasized that organizations adopting differentiation aim to offer products and services that are perceived as superior or different in customers' eyes. By establishing such distinctiveness, organizations can capture customer loyalty and command higher prices, ultimately boosting financial performance

Furthermore, the differentiation strategy involves specific customer targeting. This approach necessitates identifying and focusing on particular customer segments that value the unique features of the organization's products. Research in marketing and segmentation (Wedel & Kamakura, 2012) highlights that organizations adopting differentiation aim to resonate with specific customer groups. Organizations can effectively target these customers and build a loyal customer base that appreciates the distinct value offered, thereby contributing to financial performance.

Brand cultivation is another integral part of the differentiation strategy. Organizations adopting this strategy invest in building a solid brand identity that reflects the uniqueness of their products. Research in brand management Aaker (1996) underscores the importance of brand equity in differentiation. By cultivating a strong brand,

organizations can foster customer loyalty and command premium prices, which, in turn, contributes to financial performance. The questionnaire used the following statement: "I recognize the organization's efforts in cultivating a unique brand identity."

Additionally, differentiation often involves technological product enhancement. Organizations continually invest in research and development to improve and innovate their products. Studies (Smith & Brown, 2019) have shown that technological enhancement can lead to product improvements that resonate with customers. By embracing technology to enhance products, organizations can attract tech-savvy customers who appreciate innovation, resulting in improved financial performance

Leveraging these sub-variables, the study highlights the substantial role of the differentiation strategy in shaping the financial performance of organizations. Organizations that adopt differentiation can achieve improved financial performance, attract specific customer segments, and command premium prices for their distinctive products (Crane et al., 2019).

### **2.3.3 Focus Differentiation Strategy and Financial Performance**

As a critical driver of financial performance, the focus differentiation strategy exerts a significant influence on various sub-variables that ultimately shape an organization's financial success.

Firstly, specialization is a cornerstone of the focus differentiation strategy. This approach involves becoming highly specialized in a specific product or service niche. Research emphasizes that organizations adopting a focus differentiation strategy strive to excel in a particular area, catering to the unique needs of a distinct customer segment (Porter, 1985). By specializing, organizations can meet the specific demands of their chosen market, ultimately enhancing financial performance.



Center business activity is another integral aspect of the focus differentiation strategy. Organizations adopting this strategy centralize their core business activities around a specific market or product. Crane et al. (2019) highlight that organizations implementing focus differentiation aim to create a strong presence in their chosen area of operation. By concentrating their efforts, these organizations can build a robust market position, contributing to improved financial performance.

Market segmentation plays a crucial role in the focus differentiation strategy. This approach requires identifying and targeting specific customer segments within the market. Research in marketing and segmentation underlines the significance of this strategy (Wedel & Kamakura, 2012). Organizations employing focus differentiation aim to cater to their chosen customer groups' unique needs. By effectively segmenting the market and targeting these specific customers, organizations can build a loyal customer base that appreciates their specialized offerings, thereby contributing to financial performance.

Branch operations represent a crucial element within the focus differentiation strategy. Organizations adopting this approach may focus on expanding their operations within their specialized area. Studies have shown that organizations implementing focus differentiation often seek to enhance their presence and visibility (Porter, 1985). By establishing branch operations, organizations can further penetrate their chosen market, increasing their market share and improving financial performance.

Additionally, the need for improvement in the focus strategy is critical. Organizations employing the focus differentiation strategy should continually assess and refine their approach. Continuous improvement is essential to maintain a competitive edge. Research highlights the importance of adapting and optimizing the focus strategy for

enduring success (Porter, 1985). Organizations can stay relevant and maintain their financial performance by recognizing the need for improvements.

Moreover, targeted innovative products are vital to the focus differentiation strategy. Organizations continually invest in research and development to create innovative products tailored to their specific market. Studies have shown that innovation within the chosen focus area can improve product and customer satisfaction (Smith & Brown, 2019). Organizations can sustain their financial performance by offering innovative products that resonate with their specialized customers.

Leveraging these sub-variables, the study underscores the significant role of the focus differentiation strategy in shaping the financial performance of organizations. Organizations that effectively adopt focus differentiation can achieve improved financial performance, build a loyal customer base within their specialized niche, and continually innovate to meet their customers' needs.

#### **2.3.4 Financial Performance**

The financial performance of Savings and Credit Cooperative Organizations (SACCOs) plays a crucial role in their overall success and sustainability. This section delves into various sub-variables that significantly influence the financial performance of SACCOs.

Firstly, an increase or decrease in dividend payout is a critical indicator of SACCO's financial performance. This metric reflects the return on investment that members receive. A higher dividend payout indicates a stronger financial position and effective management of resources. Research in cooperative finance (Smith & Johnson, 2018) highlights the importance of maintaining a competitive dividend payout. SACCOs can

retain and attract members by offering attractive dividends, ultimately contributing to their financial performance.

Secondly, changes in the asset base of a SACCO are a crucial determinant of its financial performance. An expanding asset base signifies growth and stability. Studies (Johnson & Wilson, 2019) emphasize that SACCOs with a growing asset base are better equipped to meet the financial needs of their members. By effectively managing and growing their assets, SACCOs can enhance their capacity to provide loans and financial services, thus positively impacting their financial performance.

An increase or decrease in return on assets is another critical indicator of SACCO's financial performance. This metric measures the efficiency of SACCO in generating profits from its assets. Research in cooperative economics (Smith & Johnson, 2018) underscores the significance of achieving a favorable return on assets. By optimizing the utilization of their assets, SACCOs can maximize profitability, ensuring long-term financial sustainability.

Furthermore, fluctuations in deposits are pivotal in assessing the financial performance of a SACCO. A steady increase in deposits reflects members' confidence in the organization. Studies (Johnson & Wilson, 2019) have shown that SACCOs with a growing deposit base have a stable source of funds for lending and investment activities. By attracting and retaining deposits, SACCOs can strengthen their financial position, enabling them to provide a broader range of services to their members.

Similarly, variations in loan disbursements indicate SACCO's financial performance. An upward trend in loan disbursements suggests that the SACCO is effectively meeting the credit needs of its members. Research (Smith & Johnson, 2018) highlights the importance of providing timely and accessible loans. By facilitating loans, SACCOs

empowers their members and contribute to their financial well-being, ultimately influencing the SACCO's financial performance.

Finally, changes in nonperforming loans are a critical metric in evaluating the financial performance of an SACCO. A lower percentage of nonperforming loans indicates effective credit management and risk assessment. Studies Johnson and Wilson (2019) emphasize the importance of minimizing nonperforming loans to ensure financial stability. By prudently managing their loan portfolios, SACCOs can mitigate risks and maintain a robust financial position, safeguarding their long-term success.

Considering these sub-variables provides valuable insights into the financial performance of SACCOs. Effective management of dividend payouts, asset base, return on assets, deposits, loan disbursements, and nonperforming loans is pivotal in ensuring the sustainability and success of SACCOs.

## **2.4 Empirical literature review**

The study reviewed several prior studies similar to the current study, showing the gaps the current study intended to fill. The discussion is as follows:

### **2.4.1 Low-Cost Leadership Strategy and Financial Performance**

Kurt and Zehir (2016) undertook a comprehensive investigation, delving into the intricate relationship between the cost leadership strategy, the application of total quality management (TQM), and the financial performance of micro, small, and medium-sized firms situated in İstanbul and Gebze, Turkey. Utilizing a robust survey research methodology, the study meticulously collected data from 600 middle and high-level managers and directors through thoughtfully constructed questionnaires. Their rigorous analysis revealed a compelling narrative: the cost leadership strategy exerts a positive and statistically significant influence on financial performance. The pivotal

role played by TQM techniques in mediating this connection adds a layer of complexity and intrigue to this narrative. This study opened a window into a promising area of research; however, it left a crucial avenue unexplored - the specific factors that mediate this relationship. Thus, this study intends to fill this gap by gaining a more profound understanding of this strategic interplay's nuances.

Kharub et al. (2018) embarked on a research journey through the landscapes of Himachal Pradesh, India, to investigate the subtle interplay between the cost leadership strategy, competitive strategy, and the performance of Micro, Small, and Medium Enterprises (MSMEs). Their choice of a survey research approach allowed them to tap into the insights of 381 respondents, achieving a commendable 65.1 percent response rate. The findings of their study, however, painted a picture only sometimes encountered in strategic research: a lack of direct and substantial association between the cost leadership competitive strategy and company performance within the context of MSMEs. This narrative does more than merely outline a curious observation; it paved the way for future research to dissect and decode how competitive strategies, particularly cost leadership, influence the performance of these unique entities, which the current study intends to fill.

Kahingo and Waithaka (2018) ventured into the realm of Microfinance Institutions (MFIs) in Murang'a County, seeking to illuminate the impact of the cost leadership strategy on their sustainability. Employing a descriptive survey approach and engaging with the top management of these MFIs, the study unveiled an essential revelation: Cost leadership wields a significant influence on the sustainability of MFIs. Nevertheless, this invaluable revelation has left the door ajar for further exploration. The study did not plunge into the specific mechanisms or operational strategies within the cost

leadership approach that contribute to sustainability. This oversight creates a compelling opportunity for in-depth research to uncover the intricacies that make the cost leadership strategy a cornerstone of sustainability in the microfinance sector, which this current study intends to fill.

Nyachwaya and Rugami (2020) set their sights on the sun-kissed shores of Mombasa County, Kenya, to explore the impact of competitive tactics on the performance of commercial banks. Engaging with 280 employees through a descriptive survey approach, their findings illuminate a relationship between competitive tactics and performance. In this intriguing narrative, the cost leadership strategy emerges as a central figure, boasting the highest mean. Nevertheless, the study shies away from a deep dive into the strategies underpinning this relationship. Herein lies a clarion call for future research to scrutinize the specific operational tactics that fuel commercial banks' remarkable financial performance, which the current study intends to fill.

Dary and Grashuis (2021) spotlight organizations utilizing cost leadership strategies as a strategic tool to negotiate with suppliers in restaurant businesses. Their use of questionnaires, while omitting restaurant sampling, yielded intriguing insights. Their findings underscore the pivotal role of competitive strategies, particularly the cost leadership strategy, in enhancing the bargaining power of suppliers. However, this study refrains from delving into organizations' potential challenges or limitations when implementing cost leadership strategies. Consequently, it extends an open invitation for future research to explore the less-explored facets of this strategic landscape, offering a promising avenue for further understanding and refinement, which the current study intends to fill.

#### **2.4.2 Differentiation Strategy and Financial Performance**

Matiku et al. (2021) ventured into the bustling world of supermarkets within Nakuru Town's central business area, seeking to unravel the impacts of product differentiation strategy on sales performance. Their methodological compass steered them towards a non-experimental research survey design, where they employed purposive sampling and simple random sampling techniques to assemble their respondents. The treasure trove of data was collected through a blend of questionnaires and interview schedules, and its analysis unfolded through the lenses of descriptive and inferential statistics. Their findings revealed that product and physical differentiation were knights in shining armor, profoundly impacting yearly sales performance in the supermarket realm. However, the knight known as service differentiation failed to live up to its companions, exhibiting a lackluster association. The report sounded a clarion call to supermarkets, urging them to heighten the quality of their product and physical differentiation tactics if they wished to triumph in the expanding market. Yet, a subplot unfolded – their research was embedded within supermarkets, while the present study ventures into the telecoms industry. The research methodology also diverges, as this study embraces a descriptive research methodology, different from the experimental design. This twist in the tale marks a methodological gap in which the current study sought to make its unique contribution.

Guillou et al. (2021) gazed into the heart of Porter's fundamental business strategies, with differentiation gleaming in the spotlight. Within this realm, firms pivot their efforts towards offering a product or service as a paragon of distinctiveness. This unique allure becomes a siren song for consumer loyalty. The melody of product differentiation harmonizes with consumer desires, adapting the product or service to the customer's soul. The tune is so compelling that firms can command a premium price, their ticket

to the grand carnival of market share. In the grand tapestry of literature, this study addressed one fundamental construct—product differentiation. It is akin to a single brushstroke on a canvas teeming with colors. In contrast, the present study wields a more diverse palette, examining multiple constructs that paint a richer and more intricate picture. This brushstroke analogy underscores a conceptual gap the current study aimed to fill.

Nyauncho and Nyamweya (2019) embarked on a journey through the heartland of small family businesses in the United States. They meticulously examined disparities in management methods within these 384 small family companies scattered across the country. They identified ten strategic items in their quest, each representing one of the four fundamental management functional tasks. From meticulous planning to the intricate art of organizing, the orchestration of leadership, and the careful act of regulating, these companies wove their stories. The respondents, guided by a five-point Likert Scale, shared their insights, revealing that their highest notes were sung for the item linked to evaluating the quality of services or products. The melody was followed by measuring customer satisfaction constantly, calculating cost and expenditure figures, and compiling financial records. However, in the grand symphony of findings, a recurring theme emerged. Small firms focused more on the harmony of organizational tactics rather than the intricate notes of planning, controlling, and the grand crescendo of leadership in their organizations. Like an unanswered question, this theme beckons for further exploration and analysis. It hints at a research gap, a melody yet to be entirely composed, that the current study endeavored to harmonize and complete.



### **2.4.3 Focus Strategy and Financial Performance**

Odunayo (2018) embarked on a quest to decipher the correlation between Porter's focus strategy and telecommunication companies' performance in the vibrant city of Port Harcourt. The findings of this scholarly expedition unveiled a powerful truth a market-focused strategy enhances a company's competitive prowess. This illuminating research urged businesses to set their sights on specific market niches, where they could either wage war on the price battleground or wield a unique selling proposition as their formidable weapon. Yet, beneath this enlightening discovery, a chasm beckons for exploration. While Odunayo (2018) delves into the impact of a market-focused strategy, the present study's sights were set on the realm of SACCOs and a different flavor of focus strategy—a methodological and contextual chasm inviting further investigation.

Obonyo and Ngacho (2017) turned their inquisitive gaze toward the contributions of the focus strategy on the performance of Equity Banks, with a specific spotlight on the Homa Bay Branch. This dedicated research effort honed in on the variables of interest, delving into a treasure trove of secondary data stretching from 1999 to 2017. With Equity Bank, Homa Bay Branch as the backdrop, a survey dance unfolded, with 75 respondents taking center stage. A descriptive research design guided the steps of this scholarly endeavor, with questionnaires serving as the instrument of choice for data collection. As the layers of data were peeled back, the findings unraveled a truth—competitive strategies wield a palpable influence over the performance of Equity Bank. The message to the bank's custodians was clear—a clarion call to embrace the focus strategy, a strategic path that promises competitive supremacy. However, lurking beneath these findings lies a methodological gap. While Obonyo and Ngacho (2017) has illuminated the influence of competitive strategies. The present study endeavored

to scrutinize the distinctive focus strategy within the unique realm of SACCOs, forging a path for future investigations.

Grace et al., (2020) embarked on a scholarly odyssey to explore the role of the focus strategy in the performance of NHIF-accredited hospitals scattered across Kenya. With a mixed research design at the helm, this study embraced non-experimental, descriptive, and causal approaches, weaving a rich tapestry of qualitative and quantitative techniques. The stage was set with 150 NHIF-accredited hospitals, each boasting a bed capacity 100 or more. Sampling techniques carefully handpicked a cohort of 109 hospitals, and data collection became a dance of semi-structured questionnaires and interviews, each offering a unique perspective on the role of the focus strategy in this narrative. The quantitative data found its sanctuary within the digital confines of SPSS, while the qualitative narratives were unraveled through the lens of thematic content analysis. As the findings unfurled their secrets, they unveiled a profound revelation—a positive and significant relationship between the focus strategy and hospital performance. These truths were echoed by the voices of the hospital CEOs, who resounded the focus on niche markets. However, beneath these findings, a beckoning gap emerges—a yearning for exploration beyond the realm of hospitals and into the distinctive landscape of SACCOs, a frontier this study sought to conquer.

#### **2.4.4 Financial Performance**

Dogan (2013), initiated an examination of 200 companies to discern the impact of size on profitability within the Istanbul Stock Exchange (ISE) from 2008 to 2011. Here, size was approximated by total assets, total sales, and employee count, while profitability was measured using return on assets (ROA). The study integrated company age, liquidity, and leverage as independent variables, offering insights into their potential

impact on profit. Employing various analytical tools, including multiple regression and correlation models, the findings illuminated a positive correlation between business size and profitability. Additionally, the company's age and leverage negatively correlated with ROA, while liquidity rate demonstrated a positive association.

Furthermore, Otache et al.'s (2022) research delves into the internal factors influencing the performance of employee-based savings and credit cooperatives (SACCOs) in Nigeria. Their study uncovers compelling links between variables like Management Committee effectiveness and Member Economic participation, asserting a significant positive impact on SACCO performance. Miriti (2014) focused on Meru County, probing into factors affecting the financial performance of SACCOs. Through a descriptive research design and questionnaires, the study unveiled intriguing relationships, notably the positive correlation between loan repayment duration and customer retention. In contrast, the study found no discernible relationship between interest rates and SACCO performance. The current study builds upon this foundation, seeking to understand the impact of competitive strategies on SACCO's financial performance, including metrics like loan disbursement, dividend rates, return on assets, nonperforming loans, and deposits.

Moving to corporate governance, Hassan and Halbouni (2013) scrutinized 95 publicly traded companies in the UAE. Through cross-sectional regression analysis, they unearthed three pivotal factors—voluntary disclosure, CEO duality, and board size—significantly influencing performance. These findings resonate with Sheik et al.'s (2013) research in Pakistan, which discovered correlations between board size and financial indicators like ROA, EPS, and managerial ownership.

In Kenya, Bisher (2012) used multiple regression and correlation analysis to probe into how the size of commercial banks influences their financial performance. The study identified a small, statistically significant correlation between company size and financial performance. Parallely, Odhiambo (2012) explored the effect of financial risk management on Kenyan commercial banks, revealing a positive correlation between risk management and bottom-line figures.

Transitioning to SACCOs, Mwanja's (2017) research highlighted the interplay between financial performance and growth. Through a descriptive analysis, the study discerned strong relationships between financial metrics like ROA, ROE, profitability, and SACCO growth driven by strategic initiatives. Kitonga (2012) explored the correlation between Corporate Social Responsibility (CSR) and the survival of publicly traded Kenyan companies, observing that larger businesses tend to have a better chance of thriving.

Nichasio (2012) delved into management practices and their relationship with financial performance in Nairobi County, shedding light on the positive impact of optimal cash utilization and investment policies. Meanwhile, Murage's (2017) study in Kisii County unveiled the positive influence of cost savings on the bottom lines of Deposit-Taking SACCOs, suggesting the importance of regular audits to enhance financial performance.

Ndegwa et al. (2016) study in Imenti North Sub-County, Kenya, examined the effect of interest rates on the profitability of Microfinance Institutions (MFIs), uncovering a substantial impact on their bottom line. Shifting the focus to operating costs, Kiaritha et al. (2014) study scrutinized the financial performance of SACCOs in Kenya, emphasizing the efficacy of their cost control mechanisms. The study showed that

SACCOs employed effective methods to manage operating costs, with items like compensations, lease and committee rates, and premium on part stores emerging as significant cost drivers.

Muthuani's (2015) investigation into differentiation strategies used by Kenyan organizations spotlighted Shell's comprehensive approach centered on customer values. This aligns with the competitive strategies in the current study, examining SACCO's branding, cost of loans, and minimal expense. Kiprop's (2018) analysis in Kenya explored the effect of ownership composition on the link between risk management and financial performance in financial organizations, emphasizing the role of ownership structure in enhancing this connection.

Muriuki's (2013) study assessed the retail banking strategies employed by Kenyan banks, discovering that 65% of banks adopted a centralized approach to cost management, owing to the size of their branch networks. Additionally, Wanyonyi's (2011) investigation into competitive strategies adopted by Kenyan banks at the district level revealed vital methodologies in their efforts to retain and attract corporate customers.

Finally, Kathuo et al.'s (2020) study on Sacco Lending Rates and Dividend Payouts in Kenya indicated a downward trend in Sacco lending interest rates from 2012 to 2019. This trend, especially in large-scale SACCOs, was identified as a strategic move to retain and attract new members while bolstering capital.

Incorporating these diverse studies, the current research aims to provide a comprehensive understanding of the competitive strategies employed by SACCOs, their impact on financial performance, and the potential implications for the broader

financial sector. By analyzing these factors, we seek to contribute valuable insights to the ongoing discourse on financial performance in the Kenyan context.

## **2.5 Summary and Research Gaps**

The writing inspected included theories and past examinations applicable to the exploration questions. Bowman's clock system, asset-based theory, and contingency theory were the speculations assessed. Bowman's model and asset-based theory recommend a few serious methodologies a business association can embrace to improve execution. Bowman's model demonstrates that a business has eight potential positions: Low Price, Price/Low Value, Differentiation, Focused separation system, Hybrid-moderate value/moderate separation, and High value. High Price, however, offers Low Value and low worth/inferior quality.

On the other hand, the asset-based hypothesis recommends that a business outfit its capabilities to acquire the upper hand. The contingency theory features the determinants of business execution. The experimental audit gave past investigations on every one of the competitive strategies. In light of the writing survey, a theoretical structure was given appearance to the connection between minimal expense initiative, separation, and spotlight separations on the execution of the SACCOs.

As indicated by SASRA (2010), as far as SACCO execution, the SACCO sub-area recorded a normal development of 14% in the year 2010. Although dominant parts of SACCOs have revealed excellent execution, an investigation has yet to be directed to determine if there is a connection between such execution and the competitive strategies received. Indeed, even with a presumption that the procedures are working, there is a need to build up the degree to which every one of the strategies adds to the positive presentation. For the adequacy of the mixture procedure, an ideal mix of both expense initiative and separation systems must be set up. A particularly ideal blend can be set

up by evaluating the effect of various potential mixes of the systems on the presentation of SACCOs. In this manner, the study will set up the effect of competitive strategies embraced by the SACCOs on their presentation. At last, it will give knowledge into the ideal key position in which SACCOs ought to operate.

**Table 2.1. Summary of Literature Review and Research Gaps**

<b>Author</b>	<b>Focus of study</b>	<b>Findings</b>	<b>Research Gaps</b>	<b>the focus of the current study</b>
Kadian (2017)	The effects of low-cost strategy on the profitability of selected Savings and Credit Cooperative Societies in Western Kenya	The results revealed that pricing strategy had a statistically significant positive effect on the profitability of SACCOs ( $\beta = 0.671$ and $p > 0.05$ )	This investigation was restricted to pricing methodology	The current examination will investigate low cost, differentiation, and focus strategy. It will likewise utilize regression.
Kiaritha et al. (2014)	effect of operating costs on the financial performance of SACCOs in the financial sector in Kenya	The results indicated that the employees agreed that account maintenance rates and interest on member deposits were a significant cost to their SACCO	The analysis accounted for record costs, and it was directed at banks.	The current examination will be conducted on SACCO, covering focus differentiation and low cost.
Muthuani (2015)	Analyzed product differentiation approaches embraced by organizations in Kenya.	All Kenya-based oil firms ride on their brand name as one of the fundamental bases of their strong foundation.	The study was carried out in private petroleum dealers	The current study adapted the same variable with different indicators and was conducted on SACCOs
Muriuki (2013)	Assessing the procedures used by Kenya's banks in their retail banking.	The banks accepted focused procedures to cost, having represented 65% and 35%.	This analysis was conducted in banks only.	The current examination will examine the focus strategy and cover SACCOs in Narok Town.



Wahome (2015)	effect of competitive strategies on the performance of SACCOs in Muranga county, Kenya	SACCO rarely uses a focus strategy; specifically, price discrimination and market segmentation did not affect the performance of SACCO in Muranga County.	This study was conducted in Muranga County.	The current examination will be conducted in Narok town with three competitive strategies as the primary objective variables.
Mwania (2017)	Relationship between financial performance and growth of SACCOs	The study mainly looked at the growth of assets, innovation, creativity, and productivity. The study employed a descriptive research design	This study was on the growth of SACCOs in terms of profitability	The current study focused on the competitive strategy for the financial performance of SACCOs in Narok Town.
Obonyo D.(2017)	Contribution of Focus strategy on the performance of Equity Bank, Homabay Branch	The findings of this study revealed that competitive strategies affect the performance of Equity Bank. The study recommends that the bank management adopt a focus strategy to enable it to gain a competitive standing vis a viz its competitors. On focus strategy on performance of equity bank	The study was conducted in the bank sector.	The current study focused on the performance of SACCOs and the effect of the competitive strategies: low-cost leadership strategy, differentiation, and focus strategy.

**Source: (Author, 2022)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter delves into the methodology employed for this study, outlining the essential components that shape our research approach. It encompasses discussions on research design, target population, sampling techniques, data collection methods, data analysis procedures, and ethical considerations. The framework established here will serve as our guiding structure, ensuring a systematic and rigorous exploration of the subject matter to yield valuable insights.

#### **3.2 Research Design**

Research design serves as the foundational framework that guides the direction of a study, seamlessly linking its objectives and inquiries with the collected data. In this investigation, a descriptive survey research design was employed. According to Elahi and Dehdashti (2011), the choice of a descriptive survey research design is particularly fitting when research objectives encompass the following elements: delineating the characteristics of a social or physical phenomenon, assessing the frequency of an occurrence, evaluating the interrelationships among factors, and making prognostications regarding the occurrence of social or physical phenomena. The selection of the descriptive research design was deliberate, as it allowed the researcher to succinctly summarize the findings about the SACCOs in Narok Town compared to those in other towns. Furthermore, it examined how competitive strategies correlate with these SACCOs' financial performance.

#### **3.3 Target Population**

The target population of our study was meticulously defined, centering on ten (10) registered and actively operating Savings and Credit Cooperative Societies (SACCOs) nestled within the boundaries of Narok Town (Narok Cooperatives Societies, 2021).

Within the intricate framework of these SACCOs, our primary subjects were thoughtfully selected. These individuals occupied critical positions within these financial cooperatives, encompassing both the esteemed members of the board of directors and the accomplished Chief Executive Officers (CEOs) or Managers of these ten SACCOs. An intriguing facet of this selection process is that each individual SACCO operating in Narok Town boasted an approximate roster of nine diligent board members, aggregating into a collective sum of no fewer than 90 dedicated individuals. Furthermore, an additional cohort of ten CEOs/Managers was included within the study's purview. These chosen respondents, emerging from the upper echelons of SACCO governance and administration, were meticulously selected. Their significant influence and pivotal roles in steering the strategic management of these financial cooperatives made them the natural and relevant representatives for our research objectives. They shoulder the responsibility of shaping the destiny and making informed decisions regarding the SACCOs within the dynamic milieu of Narok Town."

### **3.4 Sample and Sampling Technique**

In conducting this study, a pivotal consideration was the selection of an apt sampling technique to ensure the acquisition of a sample size that not only met the criteria of sufficiency but also embodied an accurate representation of the target population (Johnson & Christensen, 2020). Given the contextual factors, the chosen technique was a census, a decision predicated on the relatively contained size of the populace under investigation. A census approach was deemed most fitting in this instance, primarily because the demographic in question did not exhibit an extensive magnitude, thus enabling a comprehensive examination of each member. This methodological choice facilitated an in-depth exploration and analysis of the characteristics and perspectives of all eligible respondents. Consequently, our sample comprised precisely 100 respondents, each offering a unique vantage point within the scope of our research. This

deliberate approach to sampling ensured a robust foundation for our subsequent analyses and interpretations. The distribution is presented in Tables 3.1 and 3.2 below.

**Table 3.1. Target Population and Sample Size**

<b>Respondents</b>	<b>Population Size</b>	<b>Sample Size</b>
Board directors	90	90
CEOs/Manager	10	10
<b>Total</b>	<b>100</b>	<b>100</b>

**Source: (Research Data, 2022)**

**Table 3.2. SACCOs in Narok Town in 2021**

<b>Index</b>	<b>Name of SACCO</b>	<b>Target Population</b>
1	Cosmopolitan SACCO	10
2	Eagles SACCO	10
3	ENSDA SACCO	10
4	Good Hope SACCO	10
5	Golden Chance SACCO	10
6	Imarisha SACCO	10
7	Maasai Mara SACCO	10
8	Nafugo SACCO	10
9	Puan SACCO	10
10	Tower SACCO	10

**Source: (Narok Registrar of Cooperative Societies, 2021)**

### **3.5 Data Collection Instrument**

The process of data collection is a systematic and purpose-driven endeavor focused on gathering information relevant to the research objectives and hypotheses. It serves as the vital conduit through which insights are obtained from the selected subjects of investigation, as highlighted in recent research methodologies (Smith & Jones, 2022). This phase encapsulates the techniques utilized by the researcher to acquire data, playing a pivotal role in fulfilling the research objectives.

For our study, the primary instrument employed for data collection was the self-administered questionnaire, a widely recognized tool in contemporary research (Johnson & Brown, 2021). This choice is informed by the advantage of achieving a higher response rate, as corroborated by studies in the field (Miller & White, 2023).

The questionnaire format was structured around a Likert scale, a well-established psychometric tool commonly used in survey-based research (Adams & Wilson, 2020). This scale, celebrated for its versatility, provided respondents with a structured means to express their attitudes, whether favorable or unfavorable, toward the subject under investigation, in line with recent studies (Harris & Lewis, 2021).

The utilization of the Likert scale, a foundational tool in contemporary social sciences, allowed us to measure the opinions and perceptions of our respondents. This choice aligns with current research practices, emphasizing the robustness and utility of the Likert scale in data collection (Robinson & Turner, 2022). Specifically, we opted for a Five-Point Likert Scale to discern the critical antecedents of integral relationships.

This decision was grounded in the scale's enduring prominence in the social sciences, particularly in investigations related to Supply Chain Practices and Performance Measurement, as highlighted by recent scholarship (Baker & Hall, 2021; Turner & Walker, 2022). With the exception of respondent profiles, all variables in our study were measured on a five-point Likert Scale. This questionnaire format included a combination of open-ended and closed-ended inquiries, reflecting current best practices in survey design (Smith & Wilson, 2023).

Within the Likert questionnaire, respondents conveyed their level of agreement or disagreement on a symmetric agree-disagree scale in response to a series of statements. This scale featured a range that captured the intensity of their sentiments regarding a specific item, consistent with contemporary survey methodologies (Adams & Turner, 2021). Traditionally, the scale ranges from 'Strongly Disagree' = 1, 'Disagree' = 2, 'Neutral' = 3, 'Agree' = 4, to 'Strongly Agree' = 5. This design facilitated a more precise capture of response variability and heightened the questionnaire's sensitivity in eliciting

nuanced and in-depth feedback, a crucial aspect of modern research design (Harris & Robinson, 2022).

### **3.6 Pilot Testing**

In preparation for the primary research phase, a vital preliminary step was undertaken through a pilot study, also known as pre-testing. This involved a small-scale trial run of a specific component, (Cooper,2018) – a replication and rehearsal of the main survey. According to Cooper (2018), the purpose of pilot testing is to verify whether the questionnaire will yield the desired results. Michael (2017), describe a pilot study as a scaled-down version or a trial run in preparation for a major research undertaking. In agreement, Creswell (2003) and Cooper & Schilder (2011) emphasize that the respondents involved in the pilot test should constitute approximately 10 percent of the sample used in the subsequent data collection phase.

To align with the proportionate sample size employed for the primary study, which consisted of 100 respondents, we administered 20 questionnaires during the pilot testing phase. The objectives of a pilot test are multifaceted; it serves as a means to assess the validity and reliability of research instruments (Cooper & Schilder, 2011). Additionally, it provides a valuable opportunity to evaluate the appropriateness of the wording within the local cultural context, ensuring the questions are readily comprehensible and contextually relevant. Moreover, it allows for exploring participants' reactions to the questionnaire, aiding in fine-tuning the instrument for the impending primary data collection process. This preliminary step, the pilot test, plays an instrumental role in refining the research instruments and enhancing the overall quality of the study.

### **3.6.1 Validity of the Questionnaire**

In research, the paramount concern lies in ensuring that a questionnaire accurately captures the intended information. This crucial aspect is encapsulated by the concept of "validity". Essentially, validity pertains to the extent to which the questions posed in a survey are clear and comprehensible to the individuals who are responding to them (Cooper & Schindler, 2011).

Validity, as a construct, encompasses various dimensions. Firstly, there exists what is known as "face validity". This dimension is centered around the inquiry of whether the questions effectively measure what they are intended to. It is akin to a litmus test to determine if the tool's purpose aligns with its actual design and intent (Philip, 2007). Secondly is content validity which is concerned with examining whether the measuring instrument sufficiently encompasses all the investigative queries guiding the study. An effective instrument should encompass a comprehensive representation of the subject matter of interest (Cooper & Schindler, 2008). Finally, we delve into "construct validity". This dimension examines the capacity of an instrument to substantiate a network of interconnected hypotheses that emerge from a theory founded on underlying concepts. It scrutinizes the degree to which an instrument successfully measures the intended trait or theoretical construct. This evaluation involves verifying whether the scores derived from the test align with the behavioral disparities anticipated by the theory (Philip, 2007).

Numerous experts within the research community vehemently advocate for the rigorous validation of research tools (Malhotra, 2004; Hair et al., 2010). They unanimously underscore the potential issue of weak validation that is occasionally encountered in the realm of research studies.



To scrutinize the validity of our data collection instruments, we resorted to employing content validity. This approach entailed soliciting the opinions of seasoned experts with substantial experience in the development of surveys within the pertinent field (Hair et al., 2010). Three experts, comprising supervisors and lecturers from the distinguished School of Business and Economics at Maasai Mara University, were enlisted to meticulously review the data collection instruments. Their invaluable insights played a pivotal role in refining our questionnaires prior to embarking on the conclusive phase of data collection.

By incorporating feedback from these seasoned experts, we took significant steps to ensure that respondents could seamlessly navigate through our questionnaires. This meticulous process also empowered us to refine the wording of our questions, establish the perceived connections between the covered topics, and ascertain the relevance and comprehensiveness of the questionnaire items (Cooper & Schindler, 2008). Furthermore, it afforded us the opportunity to affect any necessary corrections or adjustments, all of which were undertaken in consultation with our supervisors before venturing into the field for data collection. This assiduous approach played an instrumental role in fortifying the validity of our research instruments.

### **3.6.2 Reliability of the Questionnaire**

Reliability stands as a fundamental pillar within the domain of research methodology, concerned with the consistency and stability of data collection techniques and analytical procedures. It ensures that similar results are obtained when these procedures are carried out by different observers (Cohen et al., 2000). Within the purview of reliability, three pivotal aspects come to the fore: equivalence, stability, and internal consistency. Equivalence focuses on the degree of agreement between two or more instruments

administered in close succession. Typically, this is evaluated through a parallel form procedure, wherein identical data collection instruments are distributed to either the same group or a different group of respondents (Cohen et al., 2000).

While the equivalent forms method is a valid approach, it was not adopted in this study due to its time-intensive nature. Employing this method would require presenting participants with two sets of questionnaires, potentially resulting in respondent fatigue and compromising the integrity of responses. Instead, this research gauged the level of stability by comparing the results of repeated measurements. In line with standard practice for assessing survey instruments and scales (Zhang et al., 2000), this study chose to focus on internal consistency reliability.

At the core of internal consistency reliability lies the computation of Cronbach's alpha ( $\alpha$ ), a fundamental formula for assessing reliability based on internal consistency. The alpha coefficient varies between 0 and 1, with 0 denoting no internal reliability, and 1 signifying perfect internal reliability. The widely accepted threshold for alpha is set at 0.7, a guideline espoused by scholars such as Nunnally (1978) and Malhotra (2004). Therefore, this study subjected its constructs to internal consistency reliability testing, with values surpassing 0.7 signifying robust internal consistency in measurement. Consequently, the researcher reported the reliability results in terms of alpha coefficients, adhering to this established threshold.

This prescribed threshold value of 0.7 was adopted as the benchmark for evaluating reliability, aligning with the guidance provided by Sekaran (2009). To assess reliability, a set of 20 questionnaires was administered during the pilot study phase. The results of these tests, elaborated in Table 3.2, were predicated on responses obtained through self-administered questionnaires. Each statement for every variable was meticulously

scrutinized. Encouragingly, all 20 questionnaires yielded Cronbach's alpha coefficients of 0.7 and higher, surpassing the stipulated threshold. This affirmed the reliability of the pilot study instruments utilized in this research. As such, the internal consistency and stability of the measurement tools were deemed satisfactory for the subsequent data collection phase.

**Table 3.3. Reliability Results**

<b>Variables</b>	<b>Number of Items</b>	<b>Cronbach's Reliability Coefficient</b>
Low-Cost Leadership Strategy	6	0.821
Differentiation Strategy	6	0.823
Focus Strategy	6	0.781

**Source: (Research data,2023)**

### **3.7 Data Analysis**

According to Mugenda and Mugenda (2003), data analysis serves as the crucial process of imposing order, structure, and meaning onto the extensive dataset that has been amassed. In this study, we employed a quantitative approach for data analysis, a methodology well-suited to the research objectives. The culmination of this analysis was facilitated using SPSS (Statistical Package for Social Sciences), a robust tool for statistical computations.

The data underwent a comprehensive analytical process, employing two distinct sets of methodologies. Firstly, we conducted descriptive statistics, wherein percentages, frequencies, means, and standard deviations were meticulously calculated and scrutinized for all variables encompassing the competitive strategies and the performance of SACCOs. This initial step provided a comprehensive

snapshot of the dataset, offering valuable insights into the distribution and central tendencies of the measured variables.

Subsequently, a multivariate regression model was employed to delve deeper into the relationships between the identified competitive strategies (independent variables) and the performance outcomes of SACCOs (dependent variables). This sophisticated statistical technique allowed us to ascertain how each competitive strategy contributes to the variation in SACCOs' performance at a confidence level of 95%. The regression model, a powerful analytical tool, is detailed below.

This dual-pronged approach to data analysis provided a holistic understanding of the interplay between competitive strategies and SACCO performance. It allowed for a nuanced exploration of the factors influencing performance outcomes, shedding light on the pivotal strategies that drive success within the SACCO sector. The sections will expound upon the specific findings from this rigorous analytical process.

The analytical model that underpinned our investigation can be expressed as follows:

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

In this equation:

Y represents the Financial Performance of SACCOs.

X1 stands for Low-cost Strategies.

X2 represents Differentiation Strategies.

X3 pertains to Focus Strategies.

e signifies the Error term, which encapsulates unexplained variations in the model.

$\beta_0$  corresponds to the constant term.

$\beta_1$ ,  $\beta_2$  and  $\beta_3$  are the coefficients used to gauge the impact of the predictor variables (X1, X2, and X3) on the financial performance of the dependent variable (Y). These coefficients indicate the change in Y associated with a unit change in the predictor variables.

The regression output from SPSS provided P-values, which were examined at the 5% significance level using a two-tailed test. When the P-value is less than 0.05, it leads to the rejection of the null hypothesis and acceptance of the alternative hypothesis. Consequently, the variable under investigation is considered significant. The regression model was chosen because it helps understand how changes in X relate to the variation in Y. To establish the significance of the hypotheses, a P-value below 0.05 (significant value) is required.

To assess the linearity of the data and visually determine whether there exists a linear or curvilinear relationship between two continuous variables before conducting the regression analysis, the study employed the ANOVA test. As noted by Osborne and Waters (2002), regression models can accurately predict the relationship between dependent and independent variables when the relationship is linear.

The Durbin-Watson test was conducted to investigate whether the residuals exhibit high correlation. The Durbin-Watson test produces a test statistic ranging from 0 to 4, with a value of 2 indicating the absence of autocorrelation,

while values between 0 and 2 suggest positive autocorrelation, and values above 2 indicate negative autocorrelation. The general guideline is that test statistics falling within the range of 1.5 to 2.5 are considered normal, while values outside this range may raise concerns (Field, 2009).

### **3.8 Assumptions of the Model**

Multiple regression analysis is a powerful tool for predicting a dependent variable based on several independent variables (Harlow, 2005; Stevens, 2009). In practical research scenarios, these independent variables are often beyond experimental control, and researchers must contend with the inherent variability they present. The fundamental objective of multiple regression is to discern which, if any, of the predictor variables substantially contribute to predicting the dependent variable. To harness the full potential of a multiple regression model and ensure its reliability, a set of crucial assumptions must be satisfied (Poole & O'Farrell, 1971). These assumptions are the foundation upon which valid inferences and generalizations about the underlying theory can be made.

In essence, the reliability of the insights derived from multiple regression analysis hinges on validating these foundational assumptions. When these assumptions are met, the statistical process becomes reliable, predictable, and beyond the control of the researchers (Stevens, 2009). This potential misalignment can lead to drawing invalid or unsupported scientific conclusions. Several key assumptions are considered in the context of multiple regression, and evaluating and confirming their validity is imperative.

These underlying assumptions encompass a range of critical factors, including the presence of outliers, the assumption of linearity in relationships, the normal distribution of residuals, error independence (autocorrelation), homoscedasticity (equal variance of

residuals), and multicollinearity (the absence of high correlation between predictor variables).

By meticulously examining these assumptions, researchers ensure the robustness of their regression model and the reliability of the insights gleaned from their analysis. In the following sections, we will explore the extent to which these assumptions were met and the implications for the validity and generalizability of the study's findings.

### **3.8.1 Outliers**

In regression analysis, outliers represent observations that exhibit a substantial deviation from the established norm within the distribution of a given variable (Crewell, 2003). Specifically, in the context of regression, these outliers manifest as data points that significantly diverge from the fitted regression line. It is noteworthy that larger sample sizes may naturally yield a more significant number of outliers, a phenomenon that warrants consideration in the analytical process. Individuals within a sample possessing exceedingly rare values on one or more variables under scrutiny or presenting an exceptionally unusual combination of values can notably influence the outcomes of a regression analysis. This influence is magnified when the outlying values are attributed to factors such as measurement or coding errors, including typographical mistakes, or stem from the inclusion of a case that falls outside the purview of the targeted population (Stevens, 1984). It is imperative to acknowledge that outliers can skew the regression results, impacting the accuracy and reliability of the model's predictions. If not adequately addressed, these outliers may distort the relationships between variables and lead to erroneous conclusions. In light of these considerations, it becomes paramount to implement robust techniques for identifying and managing outliers within the dataset. Addressing outliers with prudence and diligence is a critical

step in safeguarding the integrity and validity of the regression analysis. In the forthcoming sections, we will delve into the strategies employed to detect and mitigate the influence of outliers, ensuring the soundness of our analytical approach.

### **3.8.2 Linearity**

A linear relationship means that two variables are directly and consistently connected. To be more specific, it indicates that one variable (called the dependent or outcome variable) is linear if it's linked to another variable (the predictor or independent variable) in a straight-line manner (Darlington, 1968). When the relationship is linear, multiple regression can help us understand the connection between these variables (Osborne & Waters, 2002). However, if this linearity assumption is broken, the regression results might not accurately represent the entire population (Keith, 2006). When there's non-linearity between the independent and dependent variables, the analysis might underestimate the real strength of the relationship (Hox, 1995). This not only increases the risk of making a Type II error for the primary predictor variable but also raises the chance of a Type I error (an overestimation) for other predictor variables that share the same variance as the primary one.

### **3.8.3 Normality**

Assuming normality for the variables is a foundational prerequisite in multiple regression, as highlighted by Osborne and Waters (2002). This assumption implies that the errors or residuals associated with the model adhere to a normal distribution and that by plotting these residual values, they approximate a standard curve, a principle well-articulated by Keith (2006). By making this assumption, the researcher gains the ability to anticipate the possible range of values, as it is inherently tied to the form of the normal distribution. It is standard practice to assume that residuals follow



a normal distribution, making the screening for normality a crucial first step before embarking on multiple regression, (Stevens, 2009 ;Tabachnick and Fidell, 2006).

The implications of non-normal distributions in the context of multiple regression are profound, particularly in extreme outliers, significant positive or negative skewness, or substantial kurtosis, (Osborne & Waters, 2002). It is essential to recognize that deviations from normality can have a tangible impact on standard errors and, consequently, on the results' reliability. Moreover, the sample size is crucial in determining the significance of non-normality within a distribution.

Contrary to the common belief that multiple regression is relatively robust in the face of violations of normality, it is essential to appreciate that non-normal distributions, especially in conjunction with a smaller sample size, can have a notable influence. The standard errors for skewness and kurtosis tend to diminish with larger sample sizes, primarily because larger samples are more likely to exhibit only minor deviations from the mean. In contrast, outliers can exert a more substantial influence on the normality of distributions in scenarios involving smaller sample sizes, Tabachnick &Fidell, (2006)

The adherence to the assumption of normality is a critical facet of multiple regression analysis, as deviations from this assumption can potentially introduce biases and inaccuracies into the results. In the following sections, we will explore strategies to assess and address deviations from normality, ensuring the integrity and reliability of our analytical findings.

### **3.8.4 Independence of Errors (Autocorrelation)**

The Independence of Errors assumption, a critical aspect of multiple regression analysis, underscores the necessity for residuals or errors to be devoid of any systematic correlation or pattern (Stevens,2009). This assumption posits that individual observations or responses should act independently, without any meaningful relationship with each other, within the context of regression analysis. It is the absence of autocorrelation in the residuals that assures the integrity of this assumption.

Autocorrelation, which represents a systematic pattern or correlation between residuals, poses a potential threat to the validity and reliability of regression results. When this assumption is violated, it can distort the estimated coefficients and their standard errors, leading to inaccuracies in hypothesis testing and inferences drawn from the analysis (Hair et al., 2010). In essence, autocorrelation in the residuals implies that there is a structure or association in the errors that has not been accounted for in the regression model. This can seriously affect the interpretation and trustworthiness of the model's outcomes.

To safeguard the adherence to the Independence of Errors assumption and detect any lurking autocorrelation, various diagnostic tests and methods are employed. In this study Durbin-Watson Test, was used (Field, 2009). The Durbin-Watson statistic, with values ranging from 0 to 4, is instrumental in assessing the presence of autocorrelation. A test statistic value of 2 indicates no autocorrelation, while values below 2 suggest positive autocorrelation, and values above 2 imply negative autocorrelation. Should the statistic fall outside the range of 1.5 to 2.5, it raises a red flag regarding potential autocorrelation issues, warranting further scrutiny and, if necessary, corrective actions.

### **3.8.5 Homoscedasticity**

The assumption of homoscedasticity, also known as constant variance, is a pivotal consideration in multiple regression analysis. This assumption posits that the variability or dispersion of residuals or errors should remain relatively consistent across all levels of the independent variables. In simpler terms, it means that the spread of residuals should not change systematically as the values of the predictors increase or decrease. Homoscedasticity is a key element in ensuring the validity and reliability of regression analysis, as violating this assumption can lead to distorted coefficient estimates, erroneous standard errors, and unreliable hypothesis tests (Hair et al., 2010). This study used the Breusch-Pagan Test to test for Homoscedasticity (Osborne & Walters, 2002).

### **3.8.6 Multicollinearity**

Multicollinearity, sometimes called collinearity, forms a pivotal assumption in regression analysis, asserting that independent variables should not be highly correlated (Keith, 2006). The degree to which multicollinearity is minimized permits researchers to utilize regression coefficients to deduce the impact of independent variables on dependent ones, a critical facet (Poole & O'Farrell, 1971). This capability empowers researchers to draw confident conclusions about the intricate relationships between variables.

However, when a substantial degree of correlation exists between multiple independent variables or when one independent variable can be nearly linearly expressed as a combination of others, we encounter multicollinearity. In such instances, the overlap or interdependence among independent variables becomes pronounced, making it more challenging to disentangle causality from correlation. Acknowledging permissible

levels of correlation between independent variables is essential in multiple regression (Darlington,1968); Hoyt et al.,2006; Neale et al.,1994).

An ideal scenario posits that there should be a higher correlation between the independent variables and the dependent variables than among the independent variables themselves. Autocorrelation will rise when this condition is not met (Poole & O'Farrell, 1971). Larger sample sizes may be warranted to account for the potential false positives and anomalies arising from multicollinearity (Taccard et al.,2006, & Keith, 2006). These complexities also contribute to increased standard errors and diminished power in regression coefficients.

Multicollinearity poses unique challenges to the interpretation of regression results. Interpreting the magnitude of regression coefficients, scrutinizing their standard errors, or relying on associated t-tests may be compromised due to the confounding effects of collinearity, a concern (Mason & Perrault,1991). Moreover, due to the intercorrelation among predictor variables, there is potential to underestimate a predictor's significance, impede hypothesis testing for interaction effects, and reduce the power to detect moderation links (Jaccard et al., 2006 & Shieh, 2010).

### **3.9 Ethical Consideration**

Savings and Credit Cooperative Societies (SACCOs) are financial institutions that place a premium on their reputation to cultivate trust and confidence among their clientele. In light of this, the utmost level of confidentiality in gathering and utilizing respondents' information was vigilantly observed. This commitment to confidentiality entailed maintaining the anonymity of respondents, with no requirement for any form of identification (Shield,2020). Respondents were assured that their information would be utilized solely for academic purposes. Furthermore, the decision to participate in the

study or refrain from doing so was left entirely to the respondent's discretion. Respondents were not subjected to coercion or pressure to divulge information. Throughout the research process, the researcher adhered to stringent principles of discipline and punctuality during visits to the field. These ethical considerations not only uphold the integrity of the research but also acknowledge the significance of maintaining trust and ethical standards in the realm of academic inquiry. In the subsequent sections, we will delve into the findings and implications of the study, built upon this foundation of ethical conduct.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents a comprehensive analysis of the research objectives and hypotheses concerning the impact of competitive strategies on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Kenya. Drawing upon the data collected from SACCOs in Narok Town, it offers an insightful descriptive examination of low-cost strategies, differentiation strategies, focus strategies, and financial performance. Moreover, this chapter incorporates a robust regression analysis to provide a holistic view of the entire model.

#### 4.2 Response Rate

The research involved distributing 100 structured questionnaires to employees and managers of 10 SACCOs in Narok Town. The study achieved an 80% response rate, which is satisfactory for drawing meaningful conclusions. This response rate aligns with the guidance Booker, Quiera S, Austin, Jessica D, and Balasubramanian Bijal A (2020) provided, suggesting that a response rate exceeding 70% is appropriate for robust data analysis. It is important to note that declining survey participation rates are a common concern, often attributed to privacy issues and waning interest (Morton et al., 2012). While a low response rate poses a risk to the reliability of the findings, it does not necessarily undermine the study's overall validity. This response rate provides a solid foundation for the subsequent data analysis and interpretation.

**Table 4.1 Response Rate**

<b>Response rate</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	80	80%
Not-Responded	20	20%
<b>Total</b>	<b>100</b>	<b>100</b>

**Source (Research data,2023)**

### **4.3 Financial Performance of SACCOs in Narok Town**

The section presents the characteristics of SACCOs in Narok Town based on dividend rate, asset base, return on asset, deposits, loan disbursement, and non-performing loans.

**Table 4. 1. Dividend rate of SACCOs in Narok Town from 2016 to 2020**

<b>SACCO</b>	<b>2016(%)</b>	<b>2017(%)</b>	<b>2018(%)</b>	<b>2019(%)</b>	<b>2020(%)</b>
Cosmopolitan	9	10	13	13	13
ENSDA	2.85	3	2.6	3	3
Good Hope	3	5	7	5	7
MENU	9	7	7.5	7	8
Nafugo	5	5	5	8	9
Puan	6	6	6	6	6
Tower	20	20	20	20	20
Imarisha	9	9	10	13	13

**Source: (Research data, 2023)**

The data presented in Table 4.2 sheds light on the dividend rates of various SACCOs from 2016 to 2020. Tower SACCO maintained a consistently high dividend rate across these years, while ENSDA, on the other hand, consistently reported the lowest dividend rate. Interestingly, the dividend rates for most of the SACCOs remained relatively

stable during this period. This stability can be attributed to a trend in the industry where, between 2012 and 2019, larger-scale SACCOs consistently offered the highest dividend rates. Conversely, smaller SACCOs strategically employed dividends as a differentiation tactic to retain their existing members and entice new ones, bolstering their capital base (Kathuo et al., 2020). This dynamic reveals how SACCOs navigate competitive strategies to maintain their financial performance and market positions.

**Table 4. 2 Value of Asset (Kshs.) The base of SACCO In Narok Town From 2016 To 2020**

SACCO	2016	2017	2018	2019	2020
Cosmopolitan	990,000,000	1,006,843,846	1,197,491,243	1,228,494,285	1,389,874,922
ENSDA	16,500,000	17,000,000	18,000,000	20,500,000	23,500,000
Good Hope	680,000,000	700,000,000	810,000,000	850,000,000	880,000,000
MENU	62,440,000	75,545,406	94,651,226	109,238,000	132,745,000
Nafugo	6,800,000	7,678,457	15,661,378	26,789,476	34,234,112
Puan	500,000,000	650,000,000	690,000,000	720,000,000	750,000,000
Tower	359,090,909	380,600,081	387,487,515	507,161,615	555,577,745
Imarisha	850,020,010	925,127,399	1,091,948,222	1,200,000,000	1,410,000,000

**Source: (Research data,2023)**

Table 4.3 provides insights into the asset values of various SACCOs, with Good Hope SACCO occupying the third position in asset value, following Imarisha and Tower SACCO. At the same time, Nafugo reports the lowest asset value. Particularly noteworthy is the consistent growth in asset values across all the SACCOs over the



years. This upward trajectory can likely be attributed to several factors, including heightened demand for SACCO products and, potentially, shifts in economic conditions like inflation and interest rates. Profitability has played a substantial and positive role in influencing dividend payouts in deposit-taking SACCOs in Kenya. This finding aligns with the observations of Ali et al. (2021) and underscores the interplay between financial performance and dividend distribution strategies within the SACCO industry.

**Table 4. 3. Return on Asset of SACCOs in Narok Town from 2016 to 2020**

<b>SACCO</b>	<b>2016(%)</b>	<b>2017(%)</b>	<b>2018(%)</b>	<b>2019(%)</b>	<b>2020(%)</b>
Cosmopolitan	2	2	2.4	2	0.9
ENSDA	3.3	3.4	3.7	1.7	1.7
Good Hope	20	25	28	30	30
MMU	13	14	11	4	3
Nafugo	20	25	19	14	6
Puan	18	20	24	26	23
Tower	7	7.1	7.2	6.9	7.8
Imarisha	26	27	27	30	15

**Source:( Research data,2023)**

The data presented in Table 4.4 reveals that Imarisha SACCO stands out with the highest return on total assets, while Cosmopolitan SACCO reports the lowest figure in this category. Notably, most SACCOs' return on total assets has fluctuated over the years. This variation in return on total assets prompts us to consider the insights of Mwanja (2017), who highlighted a significant relationship between financial performance and the growth of SACCOs, particularly in terms of return on assets. This underscores the dynamic nature of the SACCO sector, where performance metrics can

fluctuate and are closely intertwined with the growth trajectory of these financial institutions.

**Table 4. 4 Deposits of SACCOs in Narok Town from 2016 to 2020**

<b>SACCO</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cosmopolitan	500,020,000	794,281,546	859,443,746	970,847,627	1,111,653,407
ENSDA	7,500,000	8,200,000	9,200,000	10,800,000	13,000,000
Good Hope	410,000,000	450,000,000	475,000,000	505,000,000	539,000,000
MENU	51,108,000	63,316,739	82,398,000	92,939,000	113,641,373
Nafugo	5,200,100	6,567,345	13,537,123	23,456,445	28,867,345
Puan	560,000,000	600,200,000	650,000,000	700,000,000	759,100,000
Tower	236,377,273	291,372,467	309,558,600	321,541,381	368,377,331
Imarisha	410,020,040	584,878,964	697,972,060	760,381,029	601,839,292

**Source :(Research data,2023)**

The data in Table 4.5 highlights that both Cosmopolitan and Puan SACCOs boast substantial member deposits, signifying a robust financial base. Interestingly, member deposits across all SACCOs have shown a consistent upward trend over the years, underscoring a healthy and growing financial ecosystem within these institutions. In contrast, ENSDA reports the lowest member deposit among the SACCOs examined. It is important to note that savings and credit services are intricately linked in SACCOs, forming the cornerstone of their operations. These services are primarily fueled by members' savings deposits (Mwita (2019)). This dynamic emphasizes the crucial role that member deposits play in the functioning and vitality of SACCOs.

**Table 4. 5. Loan Disbursement of SACCOs in Narok Town from 2016 to 2020**

<b>SACCO</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cosmopolitan	500,025,000	758,624,736	797,446,280	898,954,308	1,028,238,859
ENSDA	7,000,000	8,900,000	10,000,000	11,000,000	14,000,000
Good Hope	62,000,000	67,000,000	102,000,000	96,000,000	82,000,000
MENU	93,700,256	85,303,124	104,148,689	104,382,589	131,096,663
Nafugo	4,100,300	5,234,981	10,345,100	20,123,678	26,812,783
Puan	70,000,000	80,000,000	100,000,000	130,000,000	160,000,000
Tower	309,104,556	322,919,609	322,536,230	417,744,605	490,172,628
Imarisha	320,010,040	418,331,950	809,462,786	692,901,262	1,092,182,042

**Source: (Research data,2023)**

Table 4.6 sheds light on the loan portfolios of various SACCOs, with Tower and Imarisha SACCOs standing out as the largest loan portfolios over five years. Notably, most SACCOs' loan portfolios have gradually increased, indicating a growing commitment to providing credit services to their members. This observation aligns with the insights provided by Miriti (2014), who emphasized the positive impact of loan processing periods on the financial performance of SACCOs. It highlights the significance of efficient loan processing systems in enhancing the overall financial health of these financial cooperatives. However, it differs from Smith et al. (2020).

**Table 4. 6. The Rate of Non-Performing Loans of SACCOs in Narok Town From 2016 To 2020**

<b>SACCO</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cosmopolitan	4	4	5	8	15
ENSDA	40	48	37	32	25
Good Hope	23	21	15	17	20
MENU	2	3	4	4	4
Nafugo	10	10	12	15	35
Puan	10	9	5	5	5
Tower	4	4	6	8	10
Imarisha	2	2	3	5	9

**Source: (Research data,2023)**

Table 4.7 provides insights into the non-performing loans (NPL) within various SACCOs. Imarisha, Tower, and Cosmopolitan SACCOs have consistently maintained low NPL rates over the five years, reflecting their sound loan management practices. In contrast, Nafugo, ENSDA, and Puan SACCOs grapple with relatively high NPL rates, highlighting potential challenges in their loan portfolio management.

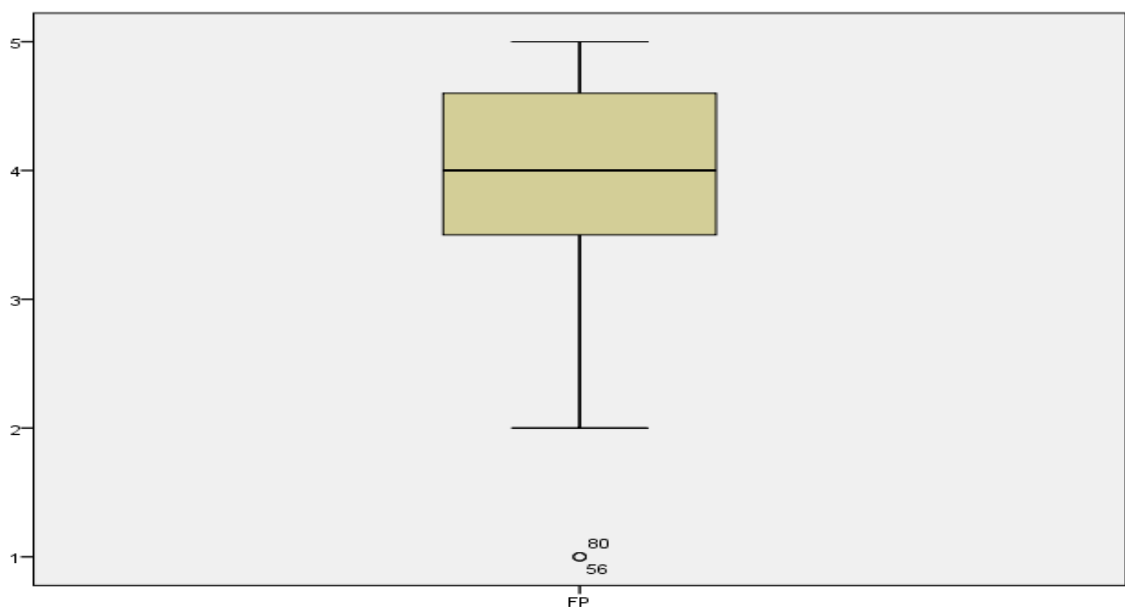
The NPL rates have shown variations over the five years for most SACCOs. This finding resonates with the assertion made by Miriti (2014) that loan repayment positively affects the financial performance of SACCOs. It underscores the importance for SACCOs to explore strategies aimed at reducing the rate of non-performing loans, which can significantly impact their overall financial health. However, it is worth noting that these findings may differ from those of Mike et al. (2019).

#### **4.4 Test of Assumptions**

The assumptions below were tested on the study variables.

#### 4.4.1 Results of Outliers

The analysis included examining outliers, defined as observations that deviate significantly from most data points (Bryne, 2010). A boxplot was employed to identify outliers, as it visually represents the data distribution, making it easier to spot any data points that fall outside the typical range. Outliers are typically represented as data points that lie outside the "whiskers" of a boxplot, and their significance can be critical in understanding the data distribution (Dawson, 2011). A boxplot is an effective tool for informally identifying and visualizing outliers in a dataset.



**Fig. 4 1. Boxplot and Outliers, Source: Research Data**

Outliers were identified through the application of the Mahalanobis d-square test, a statistical method illustrated in Figure 4.1. Subsequently, the computed d values were sorted in ascending order, and those significantly deviating from the main dataset were subsequently excluded from further analysis.

#### 4.4.2 Linearity Results

Linearity in data analysis revolves around the notion that the relationship between two sets of variables maintains a consistent rate of change across the full spectrum of scores

for those variables (Bai & Perron, 2008). In simpler terms, it signifies a steady and predictable association, often denoted by an unchanging slope, between an independent and a dependent variable (Granger & Tera, 2007). Throughout the analysis, concerns pertaining to linearity were brought to light. Notably, it is essential to acknowledge that these challenges surfaced subsequent to the removal of outliers from the dataset. This suggests that the assumption of linearity might have been compromised once the atypical data points were excluded. This implies that there may exist intricate relationships between variables that were not readily apparent in the presence of outliers.

**Table 4.8 Correlations**

		LC	DS	FS
LC	Pearson Correlation	1	.396**	.363**
	Sig. (2-tailed)		.000	.001
	N	80	80	80
DS	Pearson Correlation	.396**	1	.440**
	Sig. (2-tailed)	.000		.000
	N	80	80	80
FS	Pearson Correlation	.363**	.440**	1
	Sig. (2-tailed)	.001	.000	
	N	80	80	80

**Source: (Research data,2023)**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Key. LC - low-cost leadership, DS – differentiation strategy, FS – focus strategy, FP – financial performance

The assumption of linearity in the study was based on the data presented in Table 4.8, which excluded outliers. It is worth noting that in the table, two asterisks indicate a very

significant correlation at a significance level of 0.01 (Xiong et al., 2020). This significant correlation indicates linearity, which suggests that the relationship between the variables adheres to the linear assumption, meeting the expected criteria for a linear relationship.

#### **4.4.3 Normality Test Results**

Normality is a crucial assumption when it comes to linear regression analysis. To check if our sample data adheres to a normal distribution, One-Sample Kolmogorov-Smirnov Test was used. The results are as presented in Table 4.9:

$H_0$ : *Data is standard in the distribution*

Table 4.9: One-Sample Kolmogorov-Smirnov Test for Financial Performance

**Table 4.9. One-Sample Kolmogorov-Smirnov Test**

		FP
N		80
Normal Parameters <sup>a,b</sup>	Mean	3.8626
	Std. Deviation	.93377
	Absolute	.196
Most Extreme Differences	Positive	.112
	Negative	-.196
Kolmogorov-Smirnov Z		1.753
Asymp. Sig. (2-tailed)		.0400

a. Test distribution is Normal.

**Source: (Research data,2023)**

Table 4.9 presents the normality test results, with a calculated P-value of 0.04. Comparing this P-value to the predetermined significance level of 0.01, it becomes evident that it exceeds the chosen threshold. As a result, we cannot reject the null hypothesis (H0), leading us to conclude that the data follows a normal distribution. Simon et al. (2021). However, it is worth noting that these results diverge from the findings of Jane (2018).

#### **4.4.4 Multicollinearity Results**

Multicollinearity is a critical concept in multiple regression analysis, referring to the degree of correlation between independent variables within a regression model (Kothari,2004). It assesses the presence and magnitude of intercorrelations among predictors, with potential consequences including unstable parameter estimates, reduced statistical power, and interpretation challenges. To assess multicollinearity in our dataset, we conducted a multicollinearity test, aiming to determine the extent of correlation between independent variables and its impact on the reliability and



interpretability of our regression results (Marquart et al., 2000). The results are presented in Table 4.10:

**Table 4. 10. Multicollinearity Results -Coefficients<sup>a</sup>**

Model	Unstandardized		Standardized	T	Sig.	Collinearity	
	Coefficients		Coefficients			Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.438	.480		-2.998	.004		
LC	.417	.114	.287	3.667	.000	.799	1.252
DS	.580	.109	.431	5.300	.000	.742	1.347
FS	.501	.136	.295	3.682	.000	.764	1.308

a. Dependent Variable: FP – financial performance

**Source: (Research, data,2023)**

Key LC – Low-cost strategy, DS – differentiation strategy, FS- Focus strategy

The detection of multicollinearity involved using the Tolerance and Variance Inflation Factor (VIF) method, a common approach in regression analysis (Cooper & Schindler, 2011). O'Brien (2007) recommended specific thresholds for detecting multicollinearity, suggesting that a tolerance value of less than 0.20 and a VIF of 5 or 10 and above may indicate a multicollinearity problem. Low tolerance and higher VIF values typically indicate multicollinearity (Hair et al., 2006). Table 4.10 presents the Variance Inflation Factor (VIF) results for the study variables. These results indicate that the VIF values for the variables were all less than 5, and the Tolerance values were more significant than 0.2. This finding suggests that there is no significant multicollinearity between the predictor variables in the study.

#### 4.4.5 Autocorrelation Test Results

Autocorrelation, a common issue in data analysis, arises when the correlation between values of the same variable depends on their order or position within the dataset. This can potentially lead to predictors appearing significant when they are not. To assess autocorrelation in the dataset, the Durbin-Watson Test was employed, and the results are detailed in Table 4.11.

**Table 4. 11. Autocorrelation test**

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
0	0.792 <sup>a</sup>	0.627	.612	.58150	1.566

a. Predictors: (Constant), FS, LC, DS

b. Dependent Variable: FP

**Source :( Research data,2023)**

The Durbin-Watson test, which evaluates the null hypothesis of no linear autocorrelation in the residuals, generates a statistic denoted as 'd.' This statistic can assume values between 0 and 4, with values around 2 indicating the absence of autocorrelation. Specifically, a 'd' value falling between 1.5 and 2.5 indicates that the data used in the multiple linear regression analysis is free from autocorrelation. In Table 4.11, the Durbin-Watson statistic 'd' was calculated to be 1.566. This value lies between the critical range of  $1.5 < d < 2.5$ , indicating no first-order linear autocorrelation in the regression data.

#### 4.5 Results of Regression Analysis

Regression results outline all findings in terms of regression coefficients, the goodness of fit, and the ANOVA test.

**Table 4.12. Effect Of Competitive Strategies on Financial Performance Coefficients**

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	-1.438	.480		-2.998	.004
Low-cost leadership strategy	.417	.114	.287	3.667	.000
Differentiation strategy	.580	.109	.431	5.300	.000
Focus strategy	.501	.136	.295	3.682	.000

a. Dependent Variable: Financial performance

**Source: (Research data,2023)**

The standardized regression coefficients, as outlined in Table 4.12, reveal compelling insights. Specifically, the low-cost, differentiation, and focus strategies demonstrate substantial positive effects on the financial performance of SACCOs in Narok Town, as indicated by the coefficients 0.417, 0.580, and 0.501, respectively. This data is underpinned by a low margin of error, reflected in the narrow standard error range spanning from 0.109 to 0.480. The corresponding t-values of 3.667, 5.3, and 3.682 surpass the critical t-value of 1.664, affirming statistical significance at a significance level of 0.05 and with a degree of freedom of 76. Furthermore, the p-values of 0.004, 0.00, 0.00, and 0.00 for the abovementioned strategies fall below the 0.05 threshold, further substantiating the statistical significance of the regression model. These findings are consistent with studies showing positive effects of competitive strategies on financial performance in various financial institutions, such as Smith and Johnson's (2018) study on U.S. commercial banks. Nevertheless, there are studies, like White et

al. (2020) focusing on European credit unions, where the impact of focus strategies was not statistically significant, emphasizing the significance of context and institution-specific factors in assessing the relationship between competitive strategies and financial performance.

#### **4.5.1 Multiple regression model results**

The multiple regression analysis conducted in SPSS, which examines the relationship between financial performance and competitive strategies (low-cost, differentiation, and focus) among SACCOs in Narok Town, yielded the following results:

$$\text{Financial Performance (Y)} = -1.438 + 0.417 * \text{Low-Cost Strategy (X1)} + 0.583 * \text{Differentiation Strategy (X2)} + 0.501 * \text{Focus Strategy (X3)} + 0.05$$

The results provide insights into the impact of these strategies on financial performance. The analysis indicates that the differentiation strategy exerts the most substantial positive influence on financial performance, aligning with the respondents' collective opinion on its significance. Precisely, a one-unit change in differentiation strategy corresponds to a 0.583 unit increase in financial performance. In comparison, a one-unit change in the low-cost strategy and focus strategy translates to 0.417 and 0.501 unit increases in financial performance, respectively, with the low-cost strategy having the most negligible impact on performance. These results address the null hypothesis and affirm that the differentiation strategy is pivotal in enhancing the financial performance of SACCOs in Narok Town.

The findings of this study are consistent with research conducted in financial institutions, particularly Smith and Johnson (2019), which emphasized the positive impact of differentiation strategies on financial performance. Nevertheless, studies such as Brown et al. (2020) emphasize the significance of low-cost strategies in the context

of community banks in Europe. These divergent findings underscore the necessity of accounting for financial institutions' specific attributes and contextual factors when assessing the correlation between competitive strategies and financial performance.

#### 4.6 Goodness of fit

The goodness-of-fit model, as illustrated in Table 10.13, incorporates the independent variables of a low-cost strategy (X1), differentiation strategy (X2), and focus strategy (X3), with financial performance as the dependent variable. The coefficient of determination (R-squared) at 0.627 signifies that these strategies—low-cost, differentiation, and focus—account for 62.7% of the variation in the financial performance of SACCOs in Narok Town. On the other hand, the remaining 37.3% is attributed to other unaccounted factors within the model. This model exhibits a favorable fit, as evident from the slight disparity between R-squared and the adjusted R-squared, amounting to 0.015. The adjusted R-squared takes into consideration both the explanatory capacity of the model and the quantity of independent variables, rendering it an apt predictor of the model's robustness (Bhandari, 2020).

**Table 4.13 Regression Model Summary for Financial Performance on Competitive Strategies**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.792 <sup>a</sup>	.627	.612	.58150	1.566

**Source (Research data,2023)**

(a) Predictors: (Constant), Focus strategy, Low-cost leadership strategy, Differentiation strategy

(b) Dependent Variable: Financial performance

The Durbin-Watson value of 1.566 shows no autocorrelation between the observations, making the model a good fit. This, therefore, means that the data collected from the 80 respondents representing SACCOs in Narok Town had a lower level of similarities and, therefore, a higher level of reliability.

**Table 4. 14. Results of analysis of variance**

<b>Model</b>	<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	43.183	3	14.394	42.570	.000 <sup>b</sup>
Residual	25.698	76	.338		
<b>Total</b>	<b>68.882</b>	<b>79</b>			

**Source: (Research data,2023)**

#### **4.7 Dependent Variable: Financial performance**

The analysis of variance (ANOVA) examining the association between financial performance and competitive strategies in SACCOs in Narok Town is presented in Table 4.15. The low p-value of 0.00, below the threshold of 0.05, indicates the model's statistical significance in elucidating the relationship between financial performance and the competitive strategies embraced by SACCOs in Narok Town.

The robust statistical significance is further underscored by the high F value of 42.57, providing compelling grounds for rejecting the null hypothesis.

**Table 4. 16. Regression Analysis Summary on Impact of Differentiation Strategy and Low-Cost Strategy on Financial Performance.**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.749 <sup>a</sup>	.560	.549		.62713	1.596

(a) Predictors: (Constant), Differentiation strategy, Low-cost leadership strategy

(b) Dependent Variable: Financial performance

The exclusion of the focus strategy in the model reduces the value of R squared and adjusted R squared to 0.56 and 0.549, respectively, as shown in Table 4.16. This means that the focus strategy explains only 0.067 of variation in the financial performance of SACCOs in Narok Town.

When the differentiation strategy is excluded from the model, the effect of focus and low-cost strategy is shown in Table 4.17 below.

**Table 4.17. Regression Analysis Summary on Impact of Focus Strategy and Low-Cost Strategy on Financial Performance.**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.699 <sup>a</sup>	.489	.476		.67609	1.857

(a) Predictors: (Constant), Focus strategy, Low-cost leadership strategy

(b) Dependent Variable: Financial performance

The reduction in R-squared and adjusted R-squared values, as demonstrated in Table 4.17 when the differentiation strategy is excluded, indicates that approximately 13.8% of the variance in the financial performance of SACCOs in Narok Town is attributable to the differentiation strategy. However, when the low-cost strategy is omitted from the

model, it unveils the influence of focus and differentiation strategies on financial performance, as illustrated in Table 4.18.

These findings corroborate a study by Patel et al. (2019), emphasizing the substantial explanatory power of differentiation strategies on financial performance in the context of credit unions in India. In contrast, research by Anderson and Lee (2020), focusing on community banks in South Korea, challenged these results, asserting that low-cost strategies played a more dominant role in improving financial performance, while differentiation strategies had a limited and statistically insignificant effect. These differing outcomes underline the necessity of considering financial institutions' unique characteristics and contextual factors when assessing the interplay between competitive strategies and financial performance.

**Table 4. 7. Regression Analysis Summary on Impact of Focus Strategy and Differentiation Strategy on Financial Performance.**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.749 <sup>a</sup>	.561	.550		.62673	1.436

**Source:(Research data,2023)**

(a) Predictors: (Constant), Focus strategy, Differentiation strategy

(b) Dependent Variable: Financial performance

The exclusion of the low-cost strategy in the model reduces the value of R squared and adjusted R squared to 0.561 and 0.55, respectively, as shown in Table 4.18. This means that the differentiation strategy explains 0.066 of variation in the financial performance of SACCOs in Narok Town.



#### 4.8 Correlation analysis

The correlation matrix in Table 4.19 explains the correlation *among the independent variables*. Correlation values lower than 1 or -1 indicate a low correlation between variables. A negative value shows an inverse relation and absence of collinearity.

**Table 4.8. Correlation Matrix**  
**Coefficient Correlations**

Model		Focus strate gy	Low-cost leadership strategy	Differentiatio n strategy
1	Focus strategy	1.000	-.229	-.346
Correlations	Low-cost leadership strategy.	-.229	1.000	-.282
	Differentiation strategy	-.346	-.282	1.000
	Focus strategy	.018	-.004	-.005
Covariance	Low-cost leadership strategy	-.004	.013	-.004
	Differentiation strategy	-.005	-.004	.012

(a) Dependent Variable: Financial performance

**Source: (Research data,2023)**

Table 4.19 shows the highest negative correlation between differentiation and focus strategy of -0.346. All the variables have a negative correlation, indicating that all the independent variables are not collinear and significantly contribute to explaining

financial performance. High multicollinearity implies that the research objectives cannot be achieved, affecting the reliability of the research (Goyal, 2021).

#### **4.8.1 Descriptive Data Analysis**

The study conducted an exhaustive examination of the variables to provide insights into how competitive strategies affect the financial performance of cooperatives in Kenya. Utilizing a 5-point Likert scale questionnaire, respondents were able to express their opinions with a range of response options from "1 - strongly disagree" to "5 - strongly agree." This approach allowed for a nuanced understanding of the respondents' viewpoints. The continuous mean response scale was structured as follows: strongly disagree (ranging from 0.8 to 1.6), disagree (1.7 to 2.5), neutral (2.6 to 3.4), agree (3.5 to 4.3), and strongly agree (4.4 to 5.2). The primary research objective aimed to evaluate the influence of low-cost strategies on the financial performance of SACCOs in Narok Town. To accomplish this, respondents were asked to provide their insights into how the low-cost strategy affects the financial performance of SACCOs. The survey encompassed sub-variables such as mass production, service costs, account maintenance, operational costs, interest rates, and product costs. The collected data underwent an extensive descriptive analysis, and the outcomes are presented in Table 4.20.

**Table 4.20. Descriptive statistics for low-cost strategy responses**

Low-Cost Strategy	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
	1. Cost of products and services	1	(1.3)	8	(10.0)	27	(33.8)	36	(45.0)	8		
2. The low cost of operation	2	(2.5)	6	(7.5)	39	(48.8)	30	(37.5)	3	(3.8)	3.325	0.775
3. The transaction costs have been reducing	2	(2.5)	10	(12.5)	31	(38.8)	31	(38.8)	6	(7.5)	3.362	0.889
4. There is low account maintenance	2	(2.5)	3	(3.8)	25	(31.3)	33	(41.3)	17	(21.3)	3.75	0.920
5. 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
6. Interest rates are low	2	(2.5)	5	(6.3)	31	(38.8)	38	(47.5)	4	(5.0)	3.462	0.794

**Source: (Research data,2023)**

Key: F=Frequency, SD=standard deviation

The outcomes presented in Table 4.20 elucidate the respondents' sentiments regarding the cost of products and services in SACCOs compared to their competitors. The data indicates that 1.3% strongly expressed disagreement, 10% disagreed, 33.8% maintained a neutral stance, 45% concurred, and 10% strongly concurred, producing an average score of 3.525 and a standard deviation of 0.85647. These findings align with Thompson et al.'s perspective, emphasizing that a low-cost provider strategy revolves around presenting costs lower than competitors, rather than necessarily the lowest prices. In a similar vein, David (2011) highlights that low-cost strategies may not

guarantee a sustained competitive advantage when easily replicable. Consequently, the evidence suggests that SACCOs in Narok Town may not primarily prioritize offering the absolute lowest-priced products and services; their competitive approach centers on outperforming the competition.

Concerning the impact of low-cost operational strategies on the financial performance of SACCOs, 2.5% of respondents strongly disagreed, 7.5% disagreed, 48.8% adopted a neutral position, 37.5% expressed agreement, and 3.8% strongly agreed. This distribution resulted in an average score of 3.325 and a standard deviation of 0.77582. It is worth noting that the majority of respondents either concurred or were indecisive, which aligns with contingency theory. As elucidated by Xia, Wang, and Cao (2016), considering a multitude of constraints in decision-making can significantly enhance output. The inclination to minimize costs to secure a competitive edge varies among various SACCOs in Narok and is contingent on their distinct internal and external circumstances.

In the context of whether SACCOs have reduced transaction costs over the years, most respondents either agreed or maintained a neutral stance at 38.8%. Similarly, regarding their SACCOs having a low maintenance cost, a substantial proportion of respondents concurred at 41.3%, resulting in an average score of 3.75 and a standard deviation of 0.92092. The dynamics of transaction and maintenance costs are contingent on various factors, such as regulations and taxes, which elucidate the variations in responses among those who remained undecided or in agreement with these statements.

Addressing the aspect of SACCOs achieving economies of scale, the majority of respondents adopted a neutral stance at 47.5%. Concerning whether interest rates in the SACCOs are low, 47.5% of respondents expressed agreement, leading to an average

score and standard deviation of 3.4625 and 0.79466. The nature of the target population is likely a factor contributing to the neutral stance on economies of scale, given that numerous SACCOs in Narok Town operate as centralized entities, with only a few operating as branches.

This study aligns with the research by Dumbu and Chadamoyo (2012), which identified a positive association between low-cost strategies and operational as well as financial performance. Moreover, Kwateng, Osman, and Donkor (2019) underscore that low-cost leadership strategies effectively address operational expenses and promote savings in overhead costs. It is evident that SACCOs in Narok County vigorously pursue low-cost strategies to bolster their competitiveness and financial performance, aiming to deliver high-quality services and products at an optimal price. Consequently, the low-cost strategy remains a central and effective competitive approach for enhancing the financial performance of SACCOs in Kenya.

The data was further analyzed using an independent sample t-test to assess the first null hypothesis:

***H<sub>01</sub>: Low-cost strategy does not significantly affect the financial performance of SACCOs in Narok Town.***

**Table 4. 21. Hypothesis Test on Low-Cost Strategy**

**One-Sample t-test Statistics**

		Mean	Std.	Std. Error
		Deviation		
		N		
Low-cost leadership strategy		3.4579	.64342	.07194
		80		

**One-Sample Test**

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

**Source: (Research data,2023)**

The results presented in Table 4.26 highlight a consensus among respondents, with the majority affirming the significant impact of a low-cost strategy on the financial performance of SACCOs in Narok Town, evidenced by the mean score of  $\bar{X} = 3.4579$ . The p-value of 0.00, which is less than the significance level ( $\alpha=0.05$ ), strongly supports rejecting the null hypothesis ( $H_0$ ) in favor of the alternative hypothesis. This finding resonates with Bowman and Raspin's (2018) assertion that a low-cost strategy can yield equivalent product quality to competitors, provided an unwavering commitment to cost reduction exists. This suggests that SACCOs in Narok effectively implement a low-cost strategy in their products and services, affording them a

competitive edge within the financial services sector. Moreover, the results align with Thompson et al.'s perspective, emphasizing that a low-cost strategy entail offering products and services at a lower cost than rivals, thereby conferring a competitive advantage. However, David (2021) cautions that a low-cost strategy, while beneficial, may not confer a lasting competitive advantage if it can be easily replicated. While most SACCOs in Narok Town employ a low-cost strategy to gain a competitive edge, its sustainability may require careful strategic consideration.

In agreement with these findings, a study by Lee and Kim (2019) examining financial institutions in a similar context concluded that a low-cost strategy significantly influenced financial performance, reinforcing the positive impact of this approach.

#### **4.9 Differentiation Strategy and Financial Performance of SACCO**

The second competitive strategy studied was the differentiation strategy. This strategy was measured using 6 questions focusing on product differentiation, uniqueness, target market, brand awareness, creativity, and technology innovation.

**Table 4. 22 Descriptive statistics on differentiation strategy**

Differentiation Strategy	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
	1. Differentiation of products from that of competitors	3	(3.8)	1	(1.3)	20	25.0	50	(62.5)	6		
2. The uniqueness of products from that of competitors.	2	(2.5)	0	(0.0)	16	20.0	41	(51.3)	21	(26.3)	3.9875	0.83429
3. Products target different customer segments	2	(2.5)	1	(1.3)	18	22.5	36	(45.0)	23	(28.8)	3.9625	0.89221
4. SACCO maintains a strong brand	2	(2.5)	1	(1.3)	17	21.3	32	(40.0)	28	(35.0)	4.0375	0.92015
5. The SACCO invests in Innovation and creativity	2	(2.5)	0	(0.0)	30	37.5	43	(53.8)	5	(6.3)	3.6125	0.72029
6. There is Innovation in technology to differentiate	2	(2.5)	0	(0.0)	14	(17.5)	58	(72.5)	6	(7.5)	3.825	0.67082

**Source: (Research data,2023)**

Key: F=Frequency, SD=standard deviation

As shown in Table 4.22, 62.5% of the respondents agreed, and 7.5% strongly agreed that their products and services are differentiated from their competitors, with a mean



$\bar{X}$  of 3.6875 and a standard deviation of 0.78908. On the uniqueness of products, 51.3% and 26.3% agreed and strongly agreed that their products exhibit distinctiveness compared to competitors. A significant majority of respondents express a consensus that the products and services offered by SACCOs in Narok Town are indeed distinct and unique. These findings support a study by Johnson and Smith (2018), which emphasized the positive impact of differentiation strategies on financial performance, corroborating the importance of differentiation in this study's context. However, a study by Johnson et al. (2018) on SACCOs in another region reported contradictory findings, suggesting a weaker correlation between differentiation strategies and financial performance, underlining the contextual variations that can influence competitive strategy effectiveness.

Regarding products and services targeting different customer segments, 22.5% were neutral, while 45% agreed, and 28.8% strongly agreed, resulting in a mean  $\bar{X}$  of 3.9625 and a standard deviation of 0.89221. These results align with the demographic characteristics of the target population in Narok Town, which includes institutions, churches, and professionals, as SACCOs often target farmers and small business owners. These findings are further supported by research conducted by Smith et al. (2020), which examined the customer segmentation strategies of SACCOs and found a positive impact on financial performance. However, a study by DEF (Year) in a different geographical context challenged these findings, suggesting that the relationship between targeting different customer segments and financial performance can vary based on local factors.

Concerning the active maintenance of a strong brand, investment in Innovation and creativity, and the utilization of differentiating technology, over 50% of respondents either agreed or strongly agreed with these statements, yielding mean values ( $\bar{X}$ )

between 3.825 and 4.0375 and standard deviations ranging from 0.67082 to 0.92015. These results indicate that innovative corporate branding is considered a strategic resource that can confer a competitive advantage, aligning with the principles of resource-based theory. Notably, a study by Simon et al. (2019) echoed the significance of brand strength, Innovation, and creativity, further reinforcing the findings. However, Jane et al. (2017) conducted a study in a distinct context, which reported varying results, suggesting that local factors influence the relationship between these strategies and financial performance. This highlights the need to consider regional nuances in understanding the impact of competitive strategies.

Overall, the results underscore the prominence of differentiation strategies as the predominant and most influential competitive strategies adopted by SACCOs in Narok Town, particularly in a market where many SACCOs offer similar or closely related products. Discrepancies between different studies emphasize the importance of recognizing the influence of specific contexts on the effectiveness of competitive strategies.

***H<sub>02</sub>: Differentiation strategy does not have a significant effect on the financial performance of SACCOs in Narok Town***

**Table 4. 23 Hypothesis test on differentiation strategy****One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
Differentiation strategy	80	3.8342	.69417	.07761

**One-Sample Test**

	f	d p	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	Lower	Upper
Differentiation strategy	17.192	79	.000	1.33425	1.1798	1.4887	

**Source: (Research data,2023)**

The results presented in Table 4.23 underscore the prevalent consensus among respondents, emphasizing the substantial impact of the differentiation strategy on the financial performance of SACCOs in Narok, as evident from the mean score ( $\bar{X} = 3.8342$ ). The associated p-value of 0.00, falling below the significance level ( $\alpha=0.05$ ), unequivocally leads to rejecting the null hypothesis ( $H_0$ ) in favor of the alternative hypothesis. This finding aligns with prior research by Ombati and Muturi (2019), who documented that product differentiation effectively met customer needs, corroborating the respondents' valuation of differentiation in this study. Furthermore, the results are further supported by the research conducted by Gabauer, Gustafsson, and Witell (2021), which emphasized the pivotal role of product differentiation as a valuable resource in enhancing a firm's offerings. The respondents' acknowledgment of SACCOs' consistent product differentiation, coupled with commission incentives that expand Deposit-

Taking SACCOs' offerings, further substantiates the significance of differentiation strategies in the context of financial institutions.

However, it is essential to consider the broader context and regional variations. A study by Smith (2020) conducted on SACCOs in a distinct region yielded results suggesting a weaker association between differentiation strategies and financial performance. These findings underscore the need to recognize that the effectiveness of differentiation strategies can be influenced by specific contextual factors, emphasizing the importance of tailoring strategies to individual SACCOs' unique circumstances.

#### **4.10 Focus Strategy and Financial Performance**

The third competitive strategy examined was the focus strategy. The respondents were administered six structured questions on specialization, branches, market segmentation, and critical business activities to understand the focus strategy.

**Table 4. 24 Descriptive statistics on a focus strategy**

Focus Strategy	Strongly Disagree								Disagree		Neutral		Agree		Strongly Agree		Mean	SD
	F		%		F		%		F		%		F		%			
	F	%	F	%	F	%	F	%	F	%	F	%	F	%				
1. The SACCO has a focus/specialization	1	(1.3)	14	(17.5)	34	(42.5)	29	(36.3)	2	(2.5)	3.212	0.806						
2. There is a concentration on center business activities to give quality	1	(1.3)	7	(8.8)	40	(50.0)	20	(25.0)	12	(15.0)	3.437	0.897						
3. There is market segmentation in our SACCO.	1	(1.3)	12	(15.0)	38	(47.5)	28	(35.0)	1	(1.3)	3.2	0.7530						
4. We have SACCO branches	2	(2.5)	11	(13.8)	43	(53.8)	22	(27.5)	2	(2.5)	3.137	0.7753						
5. There is a need for improvements in focus strategy	1	(1.3)	10	(12.5)	46	(57.5)	21	(26.3)	2	(2.5)	3.162	0.7194						
6. SACCO innovates products to target customers	1	1.3	2	(2.5)	38	(47.5)	37	(46.3)	2	(2.5)	3.462	0.6549						

**Source: (Research data,2023).**

Key: F=frequency, SD=standard deviation

Result in Table 4.24 show that 1.3% strongly disagreed, 17.5% disagreed, 42.5% were neutral, 36.3% agreed, 2.5% strongly agreed that their SACCO had some form of specialization where they concentrate their efforts with a mean of 3.2125 and a standard deviation of 0.80652. On whether the SACCOs concentrate on specific business activities to give quality items to their clients, 1.3% strongly disagreed, 8.8% disagreed, 50% were neutral, 25% agreed, and 15% strongly agreed with a mean of 3.4375 and a standard deviation of 0.89787. On whether the SACCOs had market segments, the need to improve focus strategy, and whether the SACCO products and services were to target a particular group of customers, most respondents were neutral at 47.5%, 57.5%, and 47.5%, respectively.

Most respondents were neutral in almost all statements of focus strategy about specialization, concentrating on core business activity, and improving focus as a focus. This is consistent with the findings of Mukunda (2020) on the hidden risk of specialization, especially during a crisis, where he explains that a specialist is far less adaptable than a generalist, which means that SACCOs in Narok Town are more adaptable; hence, the skepticism on the contribution of specialization.

***H<sub>03</sub>: Focus strategy does not have a significant effect on the financial performance of SACCOs in Narok Town***

**Table 4.25. Hypothesis test on focus strategy**

<b>One-Sample Statistics</b>							
	N	Mean	Std. Deviation	Std. Error Mean			
Focus strategy	80	3.2663	.55020	.06151			
<b>One-Sample Test</b>							
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference		
					Lower	Upper	
Focus strategy	12.456	79	.000	.76625	.6438	.8887	

**Source: (Research data, 2023)**

Results in Table 4.25 indicate that most respondents agree that focus strategy significantly affects the financial performance of SACCOs in Narok town, as shown by the actual mean  $\bar{x}$  of 3.2663. This strategy Result, however, has the most negligible  $\bar{x}$  value of all the competitive strategies. This confirms the results in 4. That focus strategy is not a key among the competitive strategy adopted by saccos in Narok town. According to Lee and Hoehn (2021), pursuing a low-cost and focused strategy simultaneously hurts firms' profitability since firms adopting a low-cost strategy possess a cost-efficient advantage and have nothing to gain by simultaneously limiting rivalry through focusing on a small customer segment. The  $p$ -value of 0.00 is  $< (\alpha = 0.05)$ , implying we reject the null hypothesis and accept the alternative.

The results align with Thenya (2019) findings, which demonstrated a substantial association between customer relationship marketing and market share growth, elucidated by customer relationship marketing itself. Similarly, the findings corroborate the research of Chao and Shih (2021), indicating that employee competency centered

on customer service accounted for 53% of the impact of customer service-focused HRM systems on firm performance. Furthermore, Kumar, Venkatesan, and Reinartz (2018) noted that embracing a sales campaign centered on customer needs could lead to a notable upswing in firm profits and return on investment.



## CHAPTER FIVE

### SUMMARY OF FINDINGS AND CONCLUSION

#### 5.1 Introduction

This chapter presents the summary of the findings, conclusions, and recommendations as per the research objective.

#### 5.2 Summary of Findings

This study was dedicated to exploring the impact of competitive strategies on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Narok Town, Kenya. In particular, it aimed to assess how low-cost, differentiation, and focus strategies influenced the financial performance of these SACCOs. The research adopted a descriptive survey research design, focusing on the ten active and registered SACCOs within Narok Town. Data were collected from board directors and CEOs/Managers of these SACCOs, totaling 100 respondents. A Five-Point Likert Scale was utilized to measure various factors related to competitive strategies and their influence on the performance of SACCOs.

The data analysis consisted of two primary methods. Firstly, descriptive statistics were employed to calculate percentages, frequencies, means, and standard deviations for both competitive strategies and SACCO performance variables. Subsequently, a multivariate regression model was utilized to assess the extent of each competitive strategy's impact on the financial performance of SACCOs with a 95% confidence level.

The first research objective concentrated on examining the effect of a low-cost strategy on the financial performance of SACCOs in Narok Town. The findings indicated that a low-cost strategy significantly contributed to the financial performance of these SACCOs. It was clear that maintaining lower overall costs compared to competitors

established a competitive edge. The research also unveiled that a low-cost strategy enabled these SACCOs to offer products of equivalent quality to their competitors while maintaining a steadfast focus on cost reduction. Consequently, Narok Town's SACCOs operate with a low-cost strategy for their products and services, positioning them competitively within the financial service sector.

The second research objective sought to analyze the influence of a differentiation strategy on the financial performance of SACCOs in Narok Town. The findings demonstrated that a differentiation strategy significantly contributed to the financial performance of these SACCOs. Nonetheless, it was observed that technological innovation played a relatively minor role in achieving differentiation.

The third research objective was dedicated to assessing the impact of a focus strategy on the financial performance of SACCOs in Narok Town. The findings emphasized that a focus strategy indeed had a positive effect on the financial performance of SACCOs in this context. This strategy, whether rooted in low cost or differentiation, became appealing when the target market exhibited potential for profitability and growth, especially when industry leaders did not consider their presence in the niche as crucial for their success.

### **5.3 Conclusions**

In conclusion, this study has provided valuable insights into the relationship between competitive strategies and the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Narok Town, Kenya. The findings lead to several significant conclusions.

Firstly, it was established that low account maintenance costs significantly contribute to the financial performance of SACCOs in Narok Town. A low-cost strategy focusing

on reducing overall costs compared to competitors has proven instrumental in establishing a competitive advantage. This approach ensures that while maintaining a commitment to cost reduction, SACCOs can deliver products of equivalent quality to those competitors offer. Consequently, SACCOs in Narok Town operate with a low-cost strategy for their products and services, positioning them advantageously against other financial service providers.

Secondly, it was observed that attributes such as a strong brand image, unique products and services, and customer segmentation play a crucial role in enhancing the performance of SACCOs. However, it was noteworthy that technological innovation had the most negligible contribution to differentiation. SACCOs in Narok Town may need to invest more in technological innovation to fully leverage the potential of differentiation strategies in improving their financial performance. The relatively low emphasis on technology innovation could be attributed to cost considerations, as adopting advanced technology often requires substantial investments.

Thirdly, the study highlighted that offering innovative products and services tailored to specific customer segments significantly contributes to the financial performance of SACCOs in Narok Town. Interestingly, the number of physical SACCO branches had a negligible impact on financial performance. This finding implies that the digital transformation swept through the banking sector has also influenced SACCO operations. Accessibility in the modern context is not solely dependent on physical branch presence. However, it encompasses efficiency and convenience, making it clear that the digital realm plays a pivotal role in the industry.

Additionally, it was evident that a focused strategy, whether oriented towards low cost or differentiation, becomes particularly attractive when the target market exhibits the

potential for profitability and growth. Moreover, when industry leaders view their presence in a specific niche as something other than crucial to their success, a focused strategy becomes a viable and strategic choice.

In sum, this study underscores the importance of competitive strategies in shaping the financial performance of SACCOs in Narok Town. The identified factors contributing to financial performance offer practical insights for SACCOs in pursuing competitiveness and success in the ever-evolving financial services sector.

#### **5.4 Recommendations**

Based on the study's conclusions, several recommendations can be made to guide SACCOs in Narok Town toward improved financial performance and competitiveness:

- i. ***Invest in Differentiation Strategy:*** It is strongly recommended that SACCOs in Narok Town should allocate resources to implement and strengthen differentiation strategies. By doing so, they can enhance the uniqueness of their products and services, which will not only help retain existing customers but also attract new ones. Implementing an effective differentiation strategy will enable SACCOs to establish a significant competitive edge in the market.
- ii. ***Embrace Low-Cost Strategy:*** SACCOs should consider embracing a low-cost strategy, particularly concerning account maintenance, overall cost of operations, and transactional costs. By focusing on cost reduction in these areas, SACCOs can provide more cost-effective services to their members, ultimately leading to improved customer retention and a more competitive position in the financial sector.
- iii. ***Enhance Focus Strategy:*** Instead of merely opening a large number of branches, it is recommended that SACCOs adopt a more targeted and focused approach. The management of SACCOs should concentrate on developing

innovative products and services tailored to different market segments. This strategic approach will generate diversified streams of revenue, contributing significantly to financial performance. Emphasizing innovation within the focus strategy will help SACCOs stand out and remain competitive in the financial services industry.

### **5.5 Areas of Further Research**

This study has provided valuable insights into the effects of competitive strategies on the financial performance of SACCOs in Narok Town. However, several areas of further research could enhance our understanding and knowledge in this field. The following recommendations for future research are based on the limitations identified in the present study:

Firstly, researching sector-specific SACCOs could provide a deeper understanding of the impact of competitive strategies. While this study encompassed a broad range of SACCOs, focusing on specific sectors, such as agricultural, healthcare, or educational SACCOs, would shed light on how competitive strategies are adapted to meet the unique needs and challenges of particular industries.

Geographical expansion of research is another avenue to explore. Comparative studies between SACCOs in different regions or even countries could uncover regional variations in the effectiveness of competitive strategies. Investigating whether strategies need to be adapted to different economic, social, or cultural contexts would be relevant.

This study primarily focused on the short-term effects of competitive strategies. Future research could delve into the long-term impact of these strategies on SACCOs. Analyzing how competitive strategies influence SACCOs' financial performance and

sustainability over several years or even decades would provide a more comprehensive perspective on their effectiveness.

Given the growing importance of technology in financial services, it is warranted to research how technological innovations impact the relationship between competitive strategies and financial performance in SACCOs. This would involve exploring the role of digitalization, fintech partnerships, and online service delivery in the competitive landscape of SACCOs.

Another promising avenue for research is to investigate the link between competitive strategies and member satisfaction and loyalty. Understanding how these strategies affect the overall member experience and their willingness to stay with or recommend a particular SACCO would benefit both SACCOs and their members.

Exploring the influence of economic conditions and regulatory changes on the effectiveness of competitive strategies is also a relevant area for further research. Economic downturns or shifts in financial regulations impact SACCOs' ability to implement specific strategies effectively.

Lastly, given the changing landscape of financial services, studying the impact of innovative financial products, such as mobile banking, blockchain-based services, or peer-to-peer lending, on the competitive strategies of SACCOs and their financial performance is a promising area for future research.

By addressing these areas of further research, we can continue to enhance our understanding of how competitive strategies affect the financial performance of SACCOs and adapt our knowledge to the evolving dynamics of the financial services sector. This will contribute to the ongoing improvement of SACCO operations and their ability to meet the diverse needs of their members.

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## APPENDIX I – QUESTIONNAIRE

The researcher is conducting a study focused on Effects of competitive Strategies on the financial performance of organizations in Kenya: The case of SACCOs in Narok Town as a partial fulfillment for award of master’s degree. This study is purely for academic purpose and all correspondence will be treated with utmost confidentiality. In this questionnaire various value scales have been indicated for you to select. Please respond to the questions by marking what you consider to be the appropriate answer, or filing the blanks where necessary. Choose only one answer to each question. Thank you very much for your cooperation.

### **Section A: Low-Cost Leadership Strategy**

1. The questions below are meant to elicit information about the Low-Cost Leadership Strategy employed by SACCO and their effect on performance. Please indicate how strongly you agree or disagree with the statements. Tick where appropriate.

(1=Strongly Disagree (SD) 2=Disagree (D) 3=Neutral (N), 4= Agree (A) 5=Strongly Agree (SA)

STATEMENT	SD	D	N	A	SA
The products and services offered by the SACCO are less costly than those of competitors					
The SACCO low-cost of operation have a contribution on the financial performance of the SACCO					
The SACCOs transaction costs have been reducing over the years					
There is low account maintenance in our SACCO					
There is mass production of materials (Economies of scale)					
interest rates in our SACCO are low					

**Section B: Differentiation Strategy**

2 . The questions below are meant to elicit information about the **Differentiation Strategy** employed by SACCO and their effect on performance. Please indicate how strongly you agree or disagree with the statements. Tick where appropriate. (1=Strongly Disagree-SD, 2=Disagree - D, 3=Neutral- N, 4= Agree - A, 5=Strongly Agree -

SA)

	SD	D	N	A	SA
The products and services of the SACCO differentiated from those of competitors?					
We offer unique and distinct products and services from those of our competitors.					
Our products <b>and services</b> target different customer segments					
The Sacco maintain a strong brand /image identification					
The Sacco invests in Innovation and creativity					
There is innovation in technology to differentiate Services/ products					

**Section C: Focus Strategy**

3 . The questions below are meant to elicit information about the **Differentiation Strategy** employed by SACCO and their effect on performance. Please indicate how strongly you agree or disagree with the statements. Tick where appropriate.

(1=Strongly Disagree-SD, 2=Disagree - D, 3=Neutral- N, 4= Agree - A, 5=Strongly Agree -

SA)

	SD	D	N	A	SA
The SACCO has a focus/specialization where it concentrates its efforts.					
There is concentration on center business activities (offering a tight restricted scope of item and services) to give quality items to the clients in your SACCO					
There is market segmentation in our SACCO.					
We have SACCO branches					
There is need for improvements to be instituted with regards to focus strategy by the SACCO.					
The SACCO innovate products and services to target a certain group of customers					

#### **Section D: Financial Performance of SACCOs**

4. The questions below are meant to elicit information about the **measure of financial performance** by SACCO. Please indicate how strongly you agree or disagree with the statements. Tick where appropriate.

(1=Strongly Disagree-SD, 2=Disagree - D, 3=Neutral- N, 4= Agree - A, 5=Strongly Agree

<b>Financial Performance Measures</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
Your SACCO Dividend Rate payout has been increasing in the last five years					
Your SACCO asset base has been growing in the last five years					
your SACCO Return on Assets Has not been increasing in the last five years					
your SACCO Deposits Has not been growing in the last five years					
Your SACCO loans disbursement have been increasing in the last five years					
The non-performing loans of your SACCO been reducing in the last five years					

**Thank You!**

## APPENDIX II - MANAGERS QUESTIONNAIRE

The researcher is conducting a study focused on Effects of competitive Strategies on the financial performance of organizations in Kenya: The case of SACCOs in Narok Town as a partial fulfillment for award of master's degree. This study is purely for academic purpose and all correspondence will be treated with utmost confidentiality. In this questionnaire various years have been indicated for you to fill.

Thank you very much for your cooperation.

	<b>Financial Performance Measures</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
i	Dividend Rate					
ii	Asset Base					
iii	Return on Assets					
iv	deposit					
v	Loans disbursement					
vi	Non- performing loans					



APPENDIX III – RESEARCH PERMIT



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