ANALYSIS OF FACTORS INFLUENCING COMPETITIVE ADVANTAGE IN SELECTED SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAIROBI NORTH DISTRICT

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ANALYSIS OF FACTORS INFLUENCING COMPETITIVE ADVANTAGE IN SELECTED SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAIROBI NORTH DISTRICT

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ABSTRACT
With the intense Competition within the financial industry, there was need to research on Saccos in order to establish their competitive advantage and how they could remain relevant in the market. The objectives of the study were; to assess the effect of capitalization on the competitive advantage of Saccos in Nairobi North District, to assess the levels of information technology utilization by Nairobi North District Saccos and to assess the marketing levels of Nairobi North District Saccos. The research design used was descriptive research design. Data was obtained through the use of self-administered questionnaires. Questionnaires included both open and close ended questions. The data was analyzed using quantitative research techniques and was presented in form of regression analysis, pie charts, tables and graphs. The statistical tools which included statistical package for Social Sciences Software (SPSS) and Microsoft excel were used. A sample of eight SACCOs was taken from a population of two hundred and forty SACCOs in Nairobi North District using purposive sampling. The target respondents were the top and middle management staff of the selected Saccos. Six questionnaires were distributed to each SACCO to be completed by two top level management staff and four middle level management staff. The study established that SACCOs faced tough competition; they were undercapitalized making them not able to give proper service to their members. SACCOs' had inadequate information systems. Some of the selected SACCOs indicated a good attempt towards marketing whereas some did not take marketing seriously. The researcher recommended that SACCOs consider acquiring robust and complete information systems, to open up the common bond to enable them gain more customers to create funds for loaning, to use marketing tool and to retain more profits in an effort to improve on their capital.

The researcher also recommended that Saccos create alliances to work with, to create a team of experts to guide on a robust information system that will benefit big and small Saccos. It was also recommended that Saccos retain earnings to help create capital. On marketing, every organization that is in business must market its products and so for Saccos.

Key Words: *Capitalization, competitive Advantage, Information Technology, Marketing Levels*

Background of the study

The business environment is continually becoming global and competitive regardless of the nature or the size of the business. Customers are knowledgeable and hence more than ever before able to choose their products independently. The customer needs are ever changing and they demand the best products for the best prices. This requires that all businesses, small and large be competitive to be able to remain relevant in the market.

Porter (1985) stated that competition was at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that contribute to its performance, such as innovation, cohesive culture, or good implementation. Thatte (2007) contends that in the new global era companies are forced to find flexible ways to meet customers demand. Hunger et al (2007), contends that a corporation is most concerned with the intensity of competition within its industry.

Cravens et al (2006), distinguished between different phases in the development of competition. In the initial stage, companies compete in identifying product concepts, technology choices and building competencies. This phase involves experimentation with ideas, and the path to market leadership is not clearly defined. Cravens et al (2006) further stated that phase two may involve partnering of companies with the objective of controlling industry standards, though eventually these companies become competitors. Finally, Cravens et al (2006) stated that as the market becomes clearly defined, and the competitive space established, the competition concentrates on market share for end products and profits.

Porter (1985), further stated that competitive advantage introduces the concept of value chain, a general framework for thinking strategically about the activities involved in any business and assessing their relative cost and role in differentiation. While competitive strategy concentrates on the industry, competitive advantage concentrates on the firm. According to Porter (1985) competitive advantage stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and creates a basis for differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors.

Manyara (2003) defines a Cooperative as an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking in which the members actively participate.

Otenga (2003) defines a Cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Cooperative enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the task of creating productive employment, overcoming poverty and achieving social integration.

Maina (2007) defines a Savings and Credit Cooperative Society (SACCO) as a group of people that join together to save money and make loans to one another at competitive rates. Maina (2007) also states that Savings and credit Cooperative Societies are referred to as Credit Unions in other countries. According to Maina (2007) the primary objective of the Cooperatives is to access to the members' savings and loans facilities at interests that are better than those available from the competitive market. This is to say that a Savings and Credit Cooperative should use the income from loans to offer fair rates of interest on members' savings. According to Owen (2007), the Kenyan financial cooperative (referred to as Savings and Credit cooperatives) SACCO sector is by far the largest SACCO sector in Africa. Owen (2007) further states that SACCOs play a significant role in Kenya's financial sector. According to United Nation SACCO (2005), the closure of branches by many banks in Kenya in 1980s prompted SACCOs to start FOSAs in an effort to assist their members to access banking services. This concept has improved the provision of services by SACCOs, which has improved their competitive advantage.

With the coming of globalization and liberalization, SACCOs have not been spared by the competition either. According to Government (1997) the major change in the economic environment was the liberalization of economic activities and the emergence of competitive market economy. This Sessional paper culminated the era of government protection of Cooperatives in Kenya. SACCOs are competitive enough and this is evidenced by the number of SACCOs in Kenya, the number of members, and their contribution to the economy. According to Mbui (2010), as at 31st December 2005, there were 3000 active SACCOs with a membership of about 3 million. The share capital and deposits stood at 120 billion while loans outstanding were Kshs.90 billion. The sense of ownership in Co-operative approach is strong and will remain so for some time giving hope for continued loyalty of members. According to Stma (2009) the challenge is to attract young generation and general public. According to Stima (2009) efforts will be put in place to widen catchment institutions. Stima (2009) further states that it will improve its growth by opening the common bond and through acquisition of smaller SACCOs.

Problem Statement

In disregard of deficiency in SACCOs, members remained loyal to their SACCOs. The old generation is waning away and new generation coming. According to Government (1997), the major change in the economic environment has been the liberalization of economic activities and the emergence of competitive market economy. According to Wanyama (2009) economic liberalization has not seen the Cooperative movement wither away. Wanyama (2009) however observes that in the interim, many cooperatives succumbed to the fierce competitive market forces, which continue to affect some Cooperative organizations. Competition has set in with external competitors holding massive resources and using new technology, qualified man power and aggressive marketing. According to Laudon and Laudon (2010), there is a continual change in technology, management use of technology and the impact on the business success. Old systems are being creatively destroyed, and entirely new systems are taking their place. SACCOs that will not realize existence of such a competition and strategize to stay afloat will be forced to close down. It is important to determine whether SACCOs are prepared to compete in such a turbulent market.

The protection of Cooperatives by the Government had created loyal clientele for SACCOs as there was no competitor. This made SACCOs to be complacent. The current generation wants instant service delivery. Compared to most competitors, SACCOs are considered less aggressive in marketing and advertising.

Branch & Klaehn (2002) states that cooperative enterprises equally need effective marketing strategies for them to survive and grow. According to Owen (2007) SACCOs face considerable competition from banks and MFIs and that, banks make quick operations to adapt to market changes;

have better strategic direction, better operation systems and transparent decision systems. With the stiff competition from other financial institutions, SACCOs have been targeted and may soon be losing their members to other financial institutions. Owen (2007) further states that banks and MFIs are better and quicker, in development of new products and provision of funds to clients. Owen (2007) again states that banks have changed their policies to attract clientele as many provide loans quicker, with less paper work, less charges and less collateral requirements. Other financial institutions that are presumed to be competing with SACCOs in what SACCOs thought was their preserve are, insurance companies, mutual funds, mortgage finance companies, hire purchase companies, micro finances for savings and stock exchange for investments. According to Owen (2007) many urban SACCOs have liquidity problems because of not having withdrawable savings products and large amounts of funds invested in non-earning assets.

According to Porter (1985), competitive advantage introduces the concept of value chain, a general framework for thinking strategically about the activities involved in any business and assessing their relative cost and role in differentiation. While competitive strategy concentrates on the industry, competitive advantage concentrates on the firm.

Research objectives

The general objective from where the researcher drew his specific objectives was, to identify factors that influence or affect competitive advantage in Nairobi North District SACCOs. The specific objectives were:

- To assess the effect of capitalization on the competitive advantage of SACCOs in Nairobi North District.
- To assess the levels of information technology utilization by Nairobi North District SACCOs.
- To assess the marketing levels of Nairobi North District SACCOs.

LITERATURE REVIEW

Theoretical Review

Competitiveness is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods or services in a given market or Competitiveness is the ability to provide products and services as or more effectively and efficiently than the relevant competitors. This means that there cannot be competitiveness without competition. According to Stevenson (1999) competitiveness means how effectively an organization meets the needs of customers relative to others that offer similar goods or services. In our case therefore we can say that SACCOs are as good as or better than other financial institutions. According to Porter (1985) on competitive advantage, Competitiveness encompasses the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers the threat of substitute products or services and the rivalry among existing firms. The government and the general public also influence the competitiveness of a firm.

Hooley et al (2009) on introducing competition, put it that if you know your enemy as you know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory you gain you will suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle. Porter (1985) concluded that competition was at the core of the success or failure of firms. Competition determines the appropriateness of firm’s activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. According to Hunger et al (2007) a corporation is most concerned with the intensity of competition within its industry. The Porter's competitive forces determine the ultimate profit potential in the industry. The forces are the threat of potential entrants, the bargaining power of buyers, the bargaining power suppliers, the threat of the substitute products and rivalry among existing firms. The Porters theory is applicable in all industries and hence was the basis for this research. There is need for a company to identify the strategic group in which it competes. A strategic group of firms following the same strategy in given target market.

According to Kotler (1999) the initial assumption was that competitors strive to maximize their profits. An alternative assumption was that each competitor pursues a mix of objectives: current profitability, market share growth, cash flow, technological leadership, and service leadership. Knowing how a competitor weighs each objective could help us figure out whether the competitor is satisfied with current financial results, how it might react to different types of competitive attack Kotler (1999). Kotler (1999) further observed that one needed a deep understanding of a competitor's mind-set to have hope in anticipating how it might act or react. The competitors were categorized into four, that is the laid back competitor who does not react quickly or strongly to rival's move, the selective competitor who reacts only to certain types of attacks and not to others, the tiger competitor who reacts swiftly and strongly to any assault on its terrain, the stochastic competitor who does not exhibit a predictable reaction pattern.

According to Kotler (1999) every industry contains good and bad competitors; a company should support its good competitors and attack its bad competitors. Under conditions of perfect or near perfect competition, price competitiveness is particularly rife. The many players in the market offer competitively similar products so that differentiation is rarely achieved. According to Hooley et al (2009) to compete here requires either a cost advantage, created through superior technology, sourcing or scale of operations.

Hooley et al (2009) contends that without knowledge of competitors' strengths and their likely actions, it is impossible to formulate the central component of marketing strategy. Hooley et al (2009) further states that competitive benchmarking is the process of measuring your company's strategies and operations against best in class companies, both inside and outside your own industry. The purpose is to identify best practices that can be adopted or adapted to improve your own performances. In the medium term, the focus of competitor analysis must be within the same strategic group as the company concerned. In the long term, however, there is a danger in the analysis being so constrained. Hooley et al (2009) further states that the industry as a whole must be scanned for indirect competitors that may have the resources or the need to overcome the entry barriers to the incumbent's strategic group. Hooley et al (2009) states that positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competition position in the target customer's minds.

Hooley et al (2009) gives cost leadership and differentiation as the two main routes to creating a competitive advantage. The operations of the company here are likened to value chain from the input of the raw materials and other resources through to the final delivery, to and after sales servicing of the customer. Hooley et al (2009) identified several major factors that affected organizational costs. They were termed as cost drivers and were economies of scale, experience, capacity utilization, linkages, interrelationships, integration, timing, policy choices, location and institution.

According to Hunger et al (2007) a corporation is most concerned with the intensity of competition within its industry. According to Cho (1998) evaluation of competitiveness can be quite difficult and resource intensive process but could be improved with innovative mix of different approaches and tools.

According to O'Brien et al (2006) gaining a strategic advantage over competitors requires innovative application of information technologies; this might attract new customers and build customer loyalty. Strategic information systems can help provide products and services that give a business a comparative advantage over its competitors. According to Pace and Stephan (1996) one of the primary goals of organizations in a free enterprise system is to be competitive. Pace and Stephan (1996) further says that in order to become competitive, any organization must provide products and services for which the customer or clients are willing to pay a fair return or price. According to Cho (1998) the level of competitiveness can be measured for any entities with different domains- product, firm, industry, Nation, or the globe. It shows that sources of competitiveness are identical for all entities. According to Chaiprasit and Swierczek (2011) executives need more effective strategies to achieve a global level of performance and increased technology competence.

The Porter's five competitive forces

According to Porter (1985), the ultimate aim of competitive strategy is to cope with and ideally, to change those rules in the favor of the firm. In any industry, whether it is domestic or international or produces product or service the rules are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of suppliers, the bargaining power of buyers and the rivalry among the existing competitors. The five forces determine industry profitability because they influence the prices, costs, and required investment of the firms in an industry. Buyer power influences the prices the firms can charge, cost and investment, the bargaining power of suppliers determines the costs of raw materials and other inputs, the intensity of rivalry influences prices as well as the costs of competing, the threat of entry places a limit on prices, and shapes the investment required to deter entrants.

Generic competitive theory

Porter (1985) suggested that if a firm positions itself well; it may earn high rates of return even though industry structure is unfavorable. There are two types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

In cost leadership, a firm sets out to become the low cost producer in its industry, in a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers and in focus, the focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. In cost focus a firm seeks a cost advantage in its target segment while in differentiation focus a firm seeks differentiation in its target segment. A firm that engages in each generic strategy but fails to achieve any of them is stuck in the middle. It possesses no competitive advantage. A firm that is stuck in the middle competes at a disadvantage because the cost leader, differentiators or focusers will be better positioned to compete in any segment. The relevance of this theory in SACCOs is that they can capitalize on low cost of loan products to attract and retain members. SACCOs may also decide to differentiate their products and services to cut their own niche in this competitive environment.

Schumpeterian Theory

Joseph Schumpeter provided perhaps one of the most comprehensive analyses of entrepreneurship within the context of economic development. He introduced the notion that the entrepreneur is not just an allocator or director of resources, but combines inputs in untried combinations, the innovator, Kibera (1996). Schumpeter's entrepreneur only remained an entrepreneur for as long as he was innovative and lost that characteristic as long as he fell back into the routine management of a business. Development consists in the currying out of new combinations for which possibilities exist in the stationary state. New combinations come about in the form of innovations. According to Schumpeter, it was the introduction of a new product and the continual improvements in the existing ones that led to development. This theory is applicable to SACCOs in as they must be innovators if they have to remain competitive. SACCOs needed to introduce a new product, which was referred to as creative destruction. SACCOs needed to open up new markets.

Empirical Review

A number of studies and research have been undertaken in the field of Cooperative performance to ensure that SACCOs are performing. According to Ojiambo (2008), corporate governance is one of those factors that have been cited as affecting the performance of the SACCOs in Kenya. The study carried out was on corporate governance in SACCOs. The study covered selected SACCOs in Kenya. The study found that a majority of SACCOs had accountability systems in place. The effective measure was elections which brought about new management qualifications and competency. The researcher concluded that corporate governance practices and systems had taken hold in SACCOs just like they had done in other organizations in the world, as evidenced by the responses received during the research.

Kironyo (2009) researched on factors influencing the sustainability of Microfinance institutions in Kenya. The findings were that government policies did not reduce sustainability of MFIs in Kenya. The said policies have helped to eliminate self governance issues in MFIs and have enabled MFIs to constitute a board of directors which oversees the operations of these institutions. Repayment rate has a great effect on the performance and sustainability of MFIs in Kenya. The portfolio managed by MFIs gives an indication of the performance of institution which greatly influences its ability to become a bank. Number of customers served influence the operations and sustainability of MFIs in Kenya. The research also found that the number of customers served increased the amount of credit available for lending, lowered cost of loans and reduced vulnerability among low income households thus influencing the operations and sustainability of MFIs

WOCCU (2010) records that FSD Kenya commissioned the SACCO automation project with the objective to identify viable automation solutions for SACCOs. The focus was for SACCOs offering FOSA products. The project team observed that the IT strategy was inadequate or incomprehensive even among the largest SACCOs in Kenya that have been using IT systems for over ten years. Between the SACCOs visited, the project team observed significant differences with regard to proficiency to acquire, implement and utilize the system. The project team concluded that the most viable option is the acquisition of SACCO dedicated packaged software. Application service provider is currently not considered attractive as the typical benefits cannot be realized in the SACCO context due to under developed market and prevalent infrastructure deficiencies. Several factors in the market place indicated that the SACCOs' environment and requirements might change drastically in the near future hence consideration should be made on the software to be acquired. Among the options available were to standardize requirements in order to pool the acquisition with other SACCOs and the option to outsource. The team observed that it was possible that SACCOs could acquire less than optimal or even directly unsuitable system and prevent them from getting full benefit from the investment.

According to WOCCU (2008) the need to build capital becomes a requirement not only from the regulatory authorities but as the most co-efficient financing option for new products, services, marketing and branch net work expansion. In addition to regulatory requirements WOCCU (2008) continues to say that SACCOs should build capital to protect savings collected from their membership. WOCCU (2008) further says that institutional capital not only represents a cushion uncertainties such as asset losses and adverse economic cycles but it also provides resources for long-term investments and funding for provision of more services to members.

According to WOCCU (2008) a study on marketing was commissioned by the Swiss cooperative centre and the Cooperative Bank of Kenya in 2005 under ''Community finance and empowerment project (COFEP)'' revealed that for many SACCOs in Kenya; changes made on existing products are generally influenced by the knowledge of what competitors are doing and rarely on systematic analysis of needs or market, leading to poor product differentiation; their existing products and service delivery mechanisms are still not suitable for potential customers and new types of members in target communities; few SACCOs have scanned their potential market so as to regularly upgrade, diversity or improve their products; many of the SACCOs lack the knowledge and system to translate market intelligence to winning products and services calling for skills in product development and strategic planning; today there is need for SACCOs to advance beyond merely making ad hoc changes to their products using the purely supply driven approach towards a more demand led approach. The emerging competition from formal institutions, MFIs and Commercial Banks is one factor that should make SACCOs want to protect markets. SACCOs must develop new strategies for retaining their market share. Understanding clients' needs through market research and developing products will enable SACCOs to respond to client needs and preferences, deepen and broaden outreach growth, manage risk and vulnerability, raise new capital, reduce delinquency rates and retain good customers. A SACCO should understand the financial pressures caused by various events and tailor products that will enable members to satisfy those needs. Market research and product development will enable SACCOs to expand their outreach to other market segments.

Baltaca and Pirie (2009) stated that Savings and credit unions worldwide offered members much more than financial services. They provided members the opportunity to own their own financial institution and helped them create opportunities, such as starting small businesses, building family homes, and educating their children. In some countries, members encountered their first taste of democratic decision-making through their savings and credit unions. Savings and credit unions were formed in many countries as a response to the difficulty entrepreneurs and farmers often had in dealing with large financial institutions. By pooling their limited capital, individuals who did not have the necessary resources to undertake a venture, were able to start a small retail business, buy some simple power tools, or upgrade some property for their business. The principle of small amounts of capital judiciously applied at the right time and the right place has been shown to work throughout the globe.

The first cooperative was in Rochdale, Lancashire, in 1844. It was formed by weavers and other workers to obtain members goods and services which they could not get as individuals. In Kenya the Cooperatives were started by the European settlers in 1908, the first being Lubwa cooperative. From then the people perceived the need and hence the cooperatives increased. The promotional efforts of Kenya government started soon after independence in 1963 with an overall aim of using the Cooperatives as a tool to facilitate a commercialization of Kenya's small holder sector and as a vehicle for Kenya's economic development. Cooperatives have realized that they cannot be relying on their traditional operating methods only, but need to invest in value added production. SACCOs afford members an opportunity for saving regularly accumulating the savings and thereby creating a pool from which they borrow exclusively for productive purposes at fair and reasonable rates of interest than would obtain in other financial institutions. SACCOs started mainly as cooperatives for those employed people who had a common bond. They were employees from private sector and government. According to Government (1975), the government stated its continued recognition of Cooperative as vital institutions for mobilizing the natural, human and financial resources for national development. SACCOs are cost leaders in that most of their products are reasonably priced. Their products are differentiated, in that the category of products they offer is not offered by other financial institutions. The members are also the owners of those SACCOs hence the profits are distributed to them. SACCOs have a human face to their customers in that they understand their customers. Some other financial institutions harass their customers a lot when they default in loan repayment. When the lowly paid and new young people were employed and could not have collateral securities to enable them take loans from banks, SACCOs became hardy through the guarantee system. All those that were unbanked due to meager salaries and could not be accepted by the banks were accepted by the SACCOs. This made SACCOs popular and competitive.

The main purpose of the 1997 Cooperatives Societies Act was to repeal the 1966 Act so as to liberalize the Cooperative movement, democratize the member control and professionalize cooperative movement so as to manage it in a businesslike manner. Arising from the global changes, SACCOs have since opened their common bonds thereby competing amongst themselves. Microfinance institutions have ventured in what was initially the preserve of Cooperatives. Banks with their enormous resources have also targeted the same market. They have come up with attractive products that target the same market. The competition is a serious challenge to SACCOs and may phase out SACCOs if they are not careful.

This liberalization and the volatile change in the economic environment have put the Cooperatives under stiff competition. According to Government (1997), the major change in the economic environment has been the liberalization of economic activities and the emergence of competitive market economy. This Sessional paper culminated the era of government protection of Cooperatives in Kenya.

According to Wanyama (2009) economic liberalization has not seen the Cooperative movement wither away. Wanyama (2009) however observes that in the interim many cooperatives succumbed to the fierce competitive market forces, which continue to affect some Cooperative organizations.

The SACCOs however have challenges also in that the competitors have a lot of resources. To be competitive, SACCOs need to embrace new technology, improve on their processes, quality and motivated staff, aggressive marketing, creates a good financial base and visionary management. Baltaca and Pirie (2009) further stated that due to changes in cost of raw materials and labor, the micro credit in this sector is insufficient. At present, institutions are getting funds of short term nature from banks. To finance medium term enterprises like low cost housing, alternative energy equipments, and cottage industries, credit fund of larger loan for scale up and comparatively higher investment is necessary. According to Kamuruthu (2009) there is emergence of stiff competition within microfinance landscape. The micro finance institutions are increasingly facing competition especially in the area of savings mobilization. According to Zeithaml et al (2008) historically many services were somewhat protected from competition because customers had limited choices among the providers. Customers could physically drive to banks for example, supplied all local customers with checking accounts, savings account and mortgages. It used to be said that because services could not be transported they were limited in their scope. Not any longer and not with electronic channels. Through the internet, many services including financial services can be purchased from service providers far from the local area.

Hooley et al (2009) argues that the number of serious competitors in the market is important. Markets may be dominated by one (monopoly), two (duopoly), a few (oligopoly) or none (perfect competition) of the players in the market. Entry into markets dominated by one or a few players requires some form of competitive edge over them that can be used to secure a beachhead. In some circumstances it may be that the existing players in the market have failed to move with the changes in their markets and hence create for more innovative rivals. This case fits SACCOs as they have become complacent.

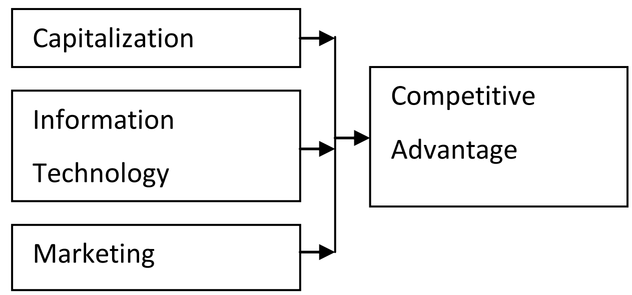
According to Kamuruthu (2009) shortage of funds for on lending and capacity building has been cited a constraint by several studies done in micro finance sector. Most institutions have not yet attained financial sustainability. Maina (2007) lists the components of capital structure as share capital, loan capital, and savings/deposits, disposal of assets, and donations or grants. For Savings and credit Cooperatives, invested capital that reflects ownership is limited to acquisition of fixed assets only and is also contributed as shares. Operational capital is additionally provided by same members in the form of savings/ deposits that does not reflect ownership. The interest charged on loans caters for the costs and a good part of the net is returned to the members as rebates. This leaves a very small amount that is placed to retained earnings. Donations or grants are rare occurrence especially to large SACCOs. At times some SACCOs borrow funds at higher interest rates from banks and lend to members at lower rates. Arising from inadequate funds, members take long before they are advanced loans. With the currents trends time is of essence and customers require their loans urgently to fulfill their desires. If SACCOs continued to have loan backlogs, they could face a very difficult time in future.

According to Laudon and Laudon (2010), there is a continual change in technology, management use of technology and the impact on the business success. Old systems are being creatively destroyed, and entirely new systems are taking their place. New industries appear old ones decline and successful firms are those who learn how to use the new technologies.

According to Kibera and Waruingi (1998), marketing comprises a system of business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential consumer segments. Hooley et al (2009) argues that setting of prices can be one of the most difficult decisions in marketing. Price too high and customers may not buy, price too low and the organization may not achieve the profit levels necessary to continue trading. The pricing considerations are production costs, economic value to the customer, competition price levels, desired competitive positioning, and corporate objectives. According to Kibera and Waruingi (1998), different organizations are guided by different marketing philosophies. The best philosophies that can guide SACCOs are marketing which believes that all marketing decision making should start by understanding the target consumers and then work backwards to the organization. The other philosophy is selling concept which contends that although consumers look for quality products, they are not likely to purchase enough of the firm's products unless some selling effort is expended. According to

Branch & Klaehn (2002) cooperative enterprises equally need effective marketing strategies for them to survive and grow. Environmental changes have created and will continue to create stiff competition for the cooperative enterprises. It is now flexible than before for members to move from one cooperative to the other in search of good services and returns on their savings.

Conceptual Framework on competitive advantage of SACCOs



Independent variable Dependent variable

Source: Research, 2011

According to Oz (2006) competitive advantage is not often long lasting. In time, competitive advantage is not often long. In time, competitors imitate the leader and the advantage diminishes. Competition is rife among competitors as they try to capture bigger market share ultimately increasing their profits. The number of competitors within the financial industry, their resources and strategies and aggression will determine the competitive advantage of SACCOs. An example is if the competitors are weak, the SACCOs will remain competitive and if the competitors are strong then the SACCOs will be less competitive. The competitors' strength has an inverse relationship with SACCO's competitive advantage. According to WOCCU (2008) over the last ten or so years, management information systems in some Kenyan SACCOs have evolved from simple DOS based systems to state of the art systems. A large number of SACCOs in Kenya computerized during this period did not get value for their money and many of them continue to acquire substandard information systems to date. This is mainly as a result of software vendors selling systems that are not complete or fully tested and the lack of information on what to look out for in the system from the SACCOs and during software selection process. SACCOs that have adopted good information systems have seen a long term saving in terms operating costs, and the systems have enabled SACCOs increase number of members and business easier to manage.

According to Hooley et al (2008) financial resources act as a constraint in any organization. Examination of published accounts can reveal liquidity and cash flow characteristics of competitors. The financial resources the competitors have, determine the competitive advantage of SACCOs. The competitor's financial resources have an inverse relationship with SACCO's competitive advantage. Hooley et al (2008) further states that financial resources act as a constraint in any organization. Hooley et al (2008) states that marketing and sales activities are to inform buyers about products and services, and to provide buyers with a reason to purchase. This can concern feedback, which allows the user company to fit in their operations out bound logistics to user requirements or by helping customers understand the economic value of products that are available. The aggression level of marketing by the competitor compared with SACCOs' marketing level will determine SACCOs' competitive advantage.

Oz (2008) stated that competitive advantage is a moving target, meaning that competitive advantage is not often long lasting. In time, competitors imitate the leader, and the advantage diminishes. So, the quest for innovative strategies must be dynamic. Corporations must continuously contemplate new ways to use information technology to their advantage. The level of information technology by the competitor will determine the competitive advantage of SACCOs.

RESEARCH DESIGN AND METHODOLOGY

The study used descriptive statistics to establish the competitive advantage of SACCOs. The target population constituted all SACCOs in Nairobi North District as at December, 2010. A list obtained from the Ministry of Cooperative Development and Marketing indicated that there were two hundred and forty (240) SACCOs in Nairobi North District. Due to homogeneity in SACCOs, the eight (8) selected SACCOs for the study were assumed to represent the SACCO fraternity. They accounted for 3.3% of the total SACCO population in Nairobi North District. For convenience purposes, the researcher concentrated on the SACCOs head offices which were all in Nairobi. The actual SACCOs studied were six after two declined. The researcher used purposive sampling design since he targeted senior and middle level staff of the six (6) SACCOs. The research was strategic and hence purposive sampling design suits it. The study used primary data and secondary data. Primary sources included self administered questionnaires whereas secondary data was obtained from the relevant literature. The primary data was collected primarily by use of questionnaires. The data was first edited for completeness and consistency. In analyzing this data various test were used, and more specifically the regression model was fitted for the data.

DATA ANALYSIS PRESENTATION AND INTERPRETATION

The study constituted eight (8) selected SACCOs, of which two SACCOs declined to participate. The number of SACCOs that participated and their responses level was six (6), namely Asili Sacco 15%, Stima Sacco18.8%, Chai Sacco12.5%, Mwalimu Sacco15.6%, Magereza Sacco18.8%, and Chuna Sacco18.8%. From the expected thirty six (36) respondents, thirty two (32) responded which was 88.9%. All the thirty two respondents, responded to section (B) of the questionnaire whereas twenty eight respondents responded to section (A), leaving all the four respondents from Chai Sacco not responding to the statistics section citing information sensitivity.

The responses were as follows; competition from a combination of banks and SACCOs 25%, combination of banks, SACCOs and MFIs 25%, banks 16.7%, combination of banks and MFIs 2.8%, combination of banks, SACCOs, MFIs, insurance companies 2.8%, 16.7% believed that each of all those institutions mentioned above were SACCOs competitors in one way or another, whereas 11.1% did not respond.

Regression analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.925	.593		1.559	.129
	capitalization	.285	.125	.336	2.283	.029
	IT	.071	.168	.070	.420	.677
	Marketing	.369	.138	.426	2.670	.012

a. Dependent Variable: Competitive advantage

The coefficient table indicated the independent variables that made contribution to the Saccos' competitive advantage. The regression equation model was not used in this situation as the measurement could not be specified in units.

Discussions

Competition

The response from the results clearly indicated that SACCOs had competitors .The main competitors were perceived to be banks, SACCOs and Micro finances. According to Owen (2007) SACCOs face considerable competition from banks and MFIs in urban areas and in the large market towns in rural areas. The primary competition is from banks. Owen (2007) further states that SACCOs' competitive situation in Kenya is also complex because they are both competitors and clients to the banks. SACCOs partner with banks to use their financial products and services, but compete for the same clients. According to Kotler (1999) every industry contains good and bad competitors; a company should support its good competitors and attack its bad competitors. According to Kamuruthu (2009) there is emergence of stiff competition within microfinance landscape.

According to Zeithaml et al (2008) historically many services were somewhat protected from competition because customers had limited choices among the providers. Customers could physically drive to banks for example, supplied all local customers with checking accounts, savings account and mortgages. It used to be said that because services could not be transported they were limited in their scope. Not any longer and not with electronic channels. According to Government (1997) the major change in the economic environment was the liberalization of economic activities and the emergence of competitive market economy. Liberalization of economy removed government protection on Cooperatives.

The number of members seems to be increasing just marginally as indicated on table 4.2 and figure 4.1. This means that there are expected members who are with the competitors. According to Kironyo

(2009) the number of customers served influence the operations and sustainability of Microfinance institutions in Kenya.

Share capital and deposits according to table 4.3 and figure 4.2 are not increasing at high margins. This also means that the expected savings are going to competitors. Loans to members also are not increasing at high margins. This is shown on table 4.4 and figure 4.3. Customers are always there in need of loans. This means that such unsatisfied customers go to competitors. The Porter's five forces theory is applicable here. To SACCOs, threat of new entrants is threat from Micro finance institutions, stock exchange, hire purchase companies, insurance companies and mutual funds. Some though having existed in the market have gained interest and have become more aggressive. Bargaining power of sellers and buyers, are the members who supply SACCOs with savings and take loans. They can bargain on the interest to pay and the return they require. The substitutes are the informal organizations such as merry go rounds, shylocks. The existing competitors are banks and SACCOs. Hooley et al (2009) argues that in some circumstances it may be that the existing players in the market have failed to move with the changes in their markets and hence create for more innovative rivals. This case fits SACCOs as they have become complacent.

Capitalization

The number of members increased marginally. The number of members determined the capital of a SACCO. Kironyo (2009) in his research found out that the number of customers influenced the operations and sustainability of Microfinance institutions in Kenya. His research also found that the number of customers served increased the amount of credit available for lending and lowered the cost of loans. Baltaca and Pirie (2009) found that the need for micro credit in this sector is insufficient. The share capital and deposits table 4.3 and figure 4.2 showed that the selected SACCOs increase in share capital and deposits was not much with the exception of Mwalimu SACCO and Stima SACCO. According to Kamuruthu (2009) there is emergence of stiff competition within microfinance landscape. The micro finance institutions were increasingly facing competition especially in the area of savings mobilization. Stima SACCO and Mwalimu SACCO were the only SACCOs that had substantial reserve retention.

Loan from the bank indicated that due to poor savings mobilization there was need to boost the funds through external loan. Chuna SACCO, Mwalimu SACCO and Stima SACCO were utilizing the external loan funds whereas the rest of the SACCOs were conservative. This means that without enough savings and or bank loan, there must be loan backlog which lowers customer satisfaction.

Information Technology

The study showed that computerization level of the selected SACCOs according to departments was; Finance department 80.6%, HR department 55.6%, Credit department 80.6 % and FOSA department 88.9%. This indicated that that SACCOs could not compete competitively it also showed that SACCOs procured incomplete software (information systems). On Software maintenance, the research showed that Chuna, Magereza, and Stima were consistent whereas Asili seemed to be on the rise. This indicated the stability of system as when the system was new, maintenance cost went high. Modules kept on being added as the software was not complete. The cost was normally included on the maintenance cost hence the fluctuation. Most of the SACCOs also considered, Microsoft updates, antivirus software as maintenance. Kotler (1999) assumed that each competitor pursued a mixture of objectives, one of them being technological leadership. According to Hooley et al (2009) to compete here requires either a cost advantage, created through superior technology, sourcing or scale of operations. According to O'Brien et al (2006) gaining a strategic advantage over competitors requires innovative application of information technologies; this might attract new customers and build customer loyalty. According to Laudon and Laudon (2010), there is a continual change in technology, management use of technology and the impact on the business success. Old systems are being creatively destroyed, and entirely new systems are taking their place. WOCCU (2008) states that over the last ten or so years, management information systems in some Kenyan SACCOs have evolved from simple DOS based systems to state of the art systems. Many SACCOs continue to acquire substandard information systems to date. This is mainly as a result of software vendors selling systems that are not complete or fully tested

Marketing

The study showed that marketing was not popular with SACCOs. 68.8% had marketing function whereas 31.3% did not have.

This could still be indicated by the fact that the number of members were not growing with big margins. Share capital and deposits were also not growing with big margins hence an indication that marketing was not at the expected level. On the product pricing, marketing interest rate scored highest with 36.1% followed by between market rate and SACCO traditional rate at 7% and SACCO traditional rate at 6%.

On marketing budget, Chuna had no marketing budget, Magereza and Asili had moderate whereas Stima and Mwalimu were ambitious and had high budgets. Kotler (1999) assumed that each competitor pursues a mix of objectives, one of them being market share growth. Without knowledge of competitors' strengths and their likely actions, it is impossible to formulate the central component of marketing strategy Hooley et al (2009). Hooley et al (2009) gives cost leadership and differentiation as the two main routes to creating a competitive advantage. On the theory of generic competitive, there are two types of competitive advantage a firm can posses, that of low cost or differentiation. SACCOS charge interest on some products at very low rates. Differentiation is introducing unique products. This is what marketing is supposed to assist. Schumpeterian theory relates to this study in as SACCOs are expected to introduce new products, they are expected to open new markets; they are expected to get new source of their funds, and to improve on the existing products. Hooley et al (2009) argues that setting of prices can be one of the most difficult decisions in marketing. Price too high and customers may not buy, price too low and the organization may not achieve the profit. According to Branch & Klaehn (2002) cooperative enterprises equally need effective marketing strategies for them to survive and grow. Hooley et al (2008) states that marketing and sales activities are to inform buyers about products and services, and to provide buyers with a reason to purchase.

Regression analysis

On regression, R squared was 46% which indicated a linear relationship between the predictors and the dependent variable. This meant that 46% of the SACCOs competitive advantage could be explained by the variations in capitalization, information technology and marketing. The 54% of the variations in SACCO competitiveness was unexplained. This means that there are other variables that cannot be ignored.

Marketing Beta was at 0.426 which was 43% and significant. It had a p-value of 0.012 which indicated a linear relationship. Product pricing and product review variables accounted for the highest percentage on marketing that influenced the SACCOs' competitive advantage.

Capitalization beta was 0.336 which was 34% and weak. It had a p-value of 0.029 which indicated that there was no relationship. High deposits and no loan backlogs accounted for the highest percentage on capitalization that affected Sacco's competitive advantage. Information technology beta was 0.071 which was 7% and weak. It had a p-value of 0.677 indicating no relationship. This variable demonstrated that information technology had no significant influence on SACCOs' competitive advantage. All the SACCOs indicated that they were automated only the level was different. Automated processes accounted for the highest percentage on information technology factors on SACCO competitive advantage. The coefficient table indicated that information technology was the least significant.

With low capitalization, inadequate information systems and low level marketing, SACCOs still have had members patronizing them. It is now evident that there are other factors that hold SACCOs together with their members. If capitalization, information technology, and marketing are improved in SACCOs, then with their affinity to members, SACCOs could probably be market leaders in financial industry in Kenya.

The regression equation model was not used in this situation as the measurement could not be specified in units.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study confirmed that competition was real within SACCOs and is very complex. The regression analysis indicated that capitalization, information technology and marketing did not influence the dependent variable competitive advantage significantly. This clearly indicated that SACCOs existed on good will. This was very dangerous because if members would explore and compare services offered by various organizations, there would be a major shift which would affect SACCOs adversely. This should act as a wakeup call for SACCOs to improve on their services in order to remain competitive. SACCOs remained confined to what they call common bonds and there were indications in the research that confirmed the same. Customers require quality service and will in future be loyal to those organizations that will offer the best products at the highest efficiency level and the best prices.

The research showed that SACCOs were not keen in capitalization hence they were not able to provide quality service to their members. SACCO Act 2008 created a regulator for SACCOs operating FOSAs. SACCOs operating FOSAs are now required to maintain an institutional capital that should not available to members. They are also urged to retain more earnings outside the rules as it is for their benefit.

The research established that very few SACCOs embrace marketing as a tool to improve their business. This creates a challenge as SACCOs may in future lose their members to competitors. With liberalization, it is possible for other financial institutions to target SACCO market, whereas those SACCOs that have now been licensed as deposit taking SACCOs can now get customers from outside the common bond. The result findings from the data also showed that majority of SACCOs' strategies for pricing their products were geared towards the market trend. Pricing as a marketing tool was popular among the SACCOs as the research indicated that 56% had taken market rate or lower than market rate hence moving away from the traditional rate. The research indicated that from the selected SACCOs, Mwalimu SACCO and Stima Sacco had embraced marketing seriously.

Though all the selected SACCOs indicated that they had computerized their systems, the research indicated that information systems in SACCOs were different and at different levels of completion. This denied them a competitive edge in their industry competition. Sacco Act 2008 has now prescribed a requirement to SACCOs operating FOSAs to make regular specified returns which mean that they need to have a good information system. According to Wanyama (2009) economic liberalization has not seen the Cooperative movement wither away. Wanyama (2009) however observes that in the interim, many cooperatives succumbed to the fierce competitive market forces, which continue to affect some Cooperative organizations. As explained above, liberalization has not seen SACCOs wither away meaning that members have not discovered fully the competitors, which is a disaster in waiting for SACCOs.

Effort however has been made especially by WOCCU to make SACCOs competitive. It was noted that more emphasis was placed on big Saccos, ignoring the small ones. This would mean that if small SACCOs are not considered and they may be pushed out of the competition.

Recommendations

To counter competition and to remain competitive and relevant in the market, SACCOs must urgently scan the environment to measure their strengths, weaknesses, opportunities, threats and the same for their competitors to enable them to be pro active hence to be ahead in the market. SACCOs must now strategize on how to avail funds such that all their customers in need of loans will be advanced in full and promptly if qualified as this is what is happening with banks. SACCOs irrespective of whether they are regulated should consider retention of part of profits to build on capital.

SACCOs should form an alliance and to come up with a team of experts that would combine ideas to come up with a comprehensive and complete information system that will be affordable by all SACCOs big and small. With a time frame and terms of reference and on deploying the required experts such as accountants, tax experts, computer engineers, actuaries, statisticians, lawyers and bankers, a good software that could consider all aspects and which would be cheaper could be availed. This can be done through a mandated committee formed from SACCOs. Where it is not possible to bring many SACCOs together, those big SACCOs can chose a very good platform which is secure and is able to handle all the SACCO requirements. They then could enter into an agreement with a software provider giving him comprehensive requirements and time line. Though it may sound expensive, the saving through labor power, effectiveness, efficiency, reduced errors and frauds will justify it.

Every SACCO should endeavor to have a marketing function which should be charged with marketing responsibilities. Advertisement of SACCO products through electronic and print media, posters and promotion are very necessary.

On competition, SACCOs need to retain strategic alliances but to do competitor analysis. Whenever an organization carries out an analysis of itself it needs also to carry out a similar analysis on its competitors Wright (2002).

Recommendation for further research

The world is going digital and with the sensitivity of information, speed of retrieval, security and processes of products and services provision, there is need for a detailed study on information technology and processes of SACCOs as the gains could be taken away by fraudsters and system hackers.

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