

**RESPONSES OF SAVINGS AND CREDIT CO-OPERATIVE
SOCIETIES (SACCOS) TO THE CHALLENGES OF
COMPETITION IN THE KENYAN FINANCIAL SECTOR: THE
CASE OF SACCOS IN ELDORET**

By:

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**A Management Research Project Submitted in Partial Fulfillment of
the Requirement for the Master of Business Administration Degree,
School of Business
University of Nairobi**

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DECLARATION

This project is my own original work and has not been submitted for a degree in any other university.

Signed .....
Sarah Mwangi

Date 21/11/08.....

The project has been submitted for examination with my approval as the university supervisor.

Signed .....

Date 20/11/2008.....

Dr Martin Ogutu

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DEDICATION

“To Him who sits on the throne and to the Lamb be praise and honor, glory and power, wisdom and thanks forever and ever!”

To my mother, brothers and sisters who sacrificed to ensure I got the best education.

ACKNOWLEDGEMENTS

I owe my gratitude to many people whose dedicated efforts have seen this project to completion.

Special thanks to Dr. Martin Ogutu for his guidance, support, patience and encouragement. I must confess I tried his patience repeatedly. However, he kindly tolerated this and greatly encouraged me to forge on to the very end.

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Special thanks to my family; my daughter Liz who had to endure long hours of loss of company as I went through the course. To my mother Elizabeth Wanjiru, my brothers BM, Mutah, Joe and Duncan and to my sisters Flo and Susan who have and continue to sacrifice to ensure a better life for each one of us.

And to God Almighty, who brought all these people my way for this purpose and has seen me through it.

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ABSTRACT

Economic and political reforms are sweeping the whole world affecting all nations. In Kenya these reforms have created fundamental changes in the environment in which firms operate. An obvious manifestation of such changes is the liberalization of trade. Such liberalization has meant that SACCOs in Eldoret have to contend with unbearable competitive pressures from the resilient global companies. The study set out to document the responses adapted by Savings and Credit Cooperatives (SACCOS) to challenges of competition in the Kenyan financial sector.

The objectives of the study were:

- (i) To establish the challenges of competition encountered by SACCOs in Eldoret.
- (ii) To determine the responses of SACCOs in Eldoret to the challenges of competition.

Primary data was collected using open and closed-ended questionnaires distributed to senior managers in the selected SACCOs. The data was thereafter, analyzed using descriptive statistics and an appropriate computer package. The analysis revealed that SACCOs have made various changes in their traditional, resource mobilization and lending methods in an attempt to cope with the changed operating environment. The SACCOs have also changed the basis products by adding new features such as front office services (FOSA) among others.

SACCOs require fresh and initiatives to penetrate new market niches. The SACCOs philosophies should be more specific and directed towards enhancing excellence in customer service.

The marketing practice need to be more aggressive to counter competition posed by cheap bank loans and substitute micro finance funds.

The strategic variables have also been adjusted either moderately or significantly. The most adjusted strategies are those of product and promotion. The product range has been improved in delivery, features and variety. In market research the SACCO need to significantly increase information gathering on competitors and customer needs. Efforts should be directed towards satisfying the identified customer needs.

In cost structure strategies, the study revealed the need to adapt significant improvement in technology and capital investment in information technology. The other strategies such as pricing and distribution have been moderately adjusted.

By undertaking various strategic responses, SACCOs are able to not only defend their market share but also to increase profitability and efficiency. The success of SACCOs in Eldoret is a learning experience for other local SACCOs in the country facing or about to face the effects of changed competitive conditions.

CHAPTER ONE: INTRODUCTION

1.1 Background

In Kenya, the formal financial sector is dominated by commercial banks. Some of these banks were historically oriented towards meeting the financial needs of large-scale commerce and external trade. They do not have a track record of lending to households and start-up small enterprises. In recognition of this shortfall, the government backed initiatives such as Savings and Credit Cooperatives (SACCOs), Small Enterprise Finance Company (SEFCO), Kenya Industrial Estate (KIE) and other alternatives to formal banks to bridge the financing gap, Kimuyu et al (2000).

The resultant market segmentation has led to fierce competition among organizations not only in the financial sector but in all industries operating under market competition. The scene is complicated by recent global, political and economic events such as liberalization of economies, rising costs of production, global economic downturn, the many competing and substitute products in the market and the spill over effects of the terrorist attacks in America. The survival and continued relevance of organizations in the market place therefore depends on the strategies, methods and practices evolved by these organizations to respond to the challenges of competition in the operating environment, Awino (2003).

In order to achieve their objectives, organizations must pay close attention to changes in the external environment. They have to constantly adopt their activities and internal configurations to reflect the new external realities. Failure to do this may put the future success of an organization in jeopardy, Aosa (1998). Company executives are therefore compelled to formulate and implement strategies that enable firms to take a pro-active anticipatory stance toward change. Johnson and Scholes (1999), defined strategy as the direction and scope of an organization over the long-term. Strategy is described as creating a fit between the external environment and internal organizational conditions to solve a problem. Strategic responses according to Pearce and Robinson (1991), are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives.

Strategic issues are future oriented and usually have multifunctional or multi-business consequences. Emphasis is placed on the development of projections that will enable a firm to

select the most promising options, which enable them to be ahead of their competitors and to secure leading market shares.

Experts are unable to agree on a universal definition of competition. Myriad interpretations have therefore been attached to the term competition. Bernhard (1976), vividly states the problems: Neither unity nor consistency is apparent in the various meanings which lawyers, economists and businessmen give to the term competition. Competition is a standard by which the law judges the legality of many business practices; competition is an abstraction which economists use to pass judgment on economic institutions and policies; competition is a plague upon firms who feel that their share of the market is insecure. Competition is a protection for consumers and a charter of freedom for individuals and firms in their productive activities. Competition is a violation of moral and ethical principles, a destructive, vicious and unscrupulous form of economic aggression. It is all this things in addition to being the economist's technical specification for perfection in economic life; and at other times the economist's description of a reality that is far from perfect. Competition, basically, is the process of striving against others (competitors) to win or achieve something. The competitive environment is that in which competition takes place, Pettinger (2004).

Competition in an industry goes beyond the fight for market share. Competitive forces exist that go well beyond the established combatants in a particular industry. Customers, suppliers, potential entrants, and substitute products are all competitors that may be more or less prominent or active depending on the industry, Porter (1979). The corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favor. Porter (1998), argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete and establishing the goals and policies or tactics necessary for achieving the goals. Competitive strategies include actions or attempts by a firm to attract customers, retain them, withstand competitive pressures and strengthen its market position and are aimed at gaining competitive advantage. Porter observes that the knowledge of the underlying sources of competitive pressure provides the groundwork for an appropriate response.

Executives can employ a wide range of responses depending on their specific circumstances. These are corporate, business and functional responses. Corporate strategies address the entire strategic

scope of the enterprise. They can be referred to as domain selection. Business strategies focus on individual business units and can be referred to as domain navigation, Jay and Bourgeois (1980). The former is a question of where shall we compete? While the latter is a question of how shall we compete? The grand corporate strategies include growth strategies, stability strategies and reduction strategies. Business responses aim at achieving efficiency and effectiveness to ensure a firm's survival in a turbulent environment. They are reactions to changes whose effects may be localized where only a small section of the organization is involved. Firms have three generic strategies that they can use to secure their survival. These are; cost leadership, differentiation and focus, Grant (1998). Functional-level strategies are concerned with coordinating the functional areas of the organization so that each area upholds and contributes to individual business-level strategies and the overall corporate level strategy. This involves coordinating functions and operations needed to design, manufacture, deliver, and support the product or service of each business within the corporate portfolio.

The Kenyan competitive situation is no exception to the patterns witnessed in the world. It has been changing over the years with the liberalization of the economy, globalization, price decontrols and privatization of government corporations. The fiscal policy has also been changing from year to year with the introduction of value added tax in 1989, changes in corporations and individual taxes, excise taxes all of which impact on organizations operations and profitability. The economic growth rate has gradually increased from 1.3% in 2002 to around 7% in 2007. Government borrowing from the public has gradually decreased and so has Treasury Bill interest rates. Consequently, major financial institutions found themselves with excess cash. They reduced their interest rates and competed with SACCOs and micro-finance institutions for the same clients.

In the 8th National Development Plan (2002-2008), the government in collaboration with other stakeholders promised to implement the following strategies in the cooperative movement: revamp the cooperative movement, revise current Cooperative Societies Act, support SACCOS and facilitate training and awareness creation. The focus of this study is the operations of the savings and credit cooperatives sub-sector of the Cooperative Sector. The study will specifically examine responses adopted by SACCOS in response to challenges of competition.

1.1.1 SACCOs in Kenya

A cooperative is defined as an association of persons who have voluntarily joined together to achieve a common end through jointly owned and democratically controlled enterprises.

Wamakau (2004). Cooperatives are based on the values of self-help and self-responsibility, democracy, equality, equity and solidarity. Cooperative members believe in ethical values of honesty, openness, social responsibility and caring for others. The major object for cooperatives is the promotion of the welfare and economic interests of the members. SACCOs respond to people's needs for food, housing, education, small enterprises, transport, medicine, clothing and expense in marriage, birth and death. (Daily Nation 2003).

The Cooperative Act (1998) requires cooperatives to incorporate the following principles in their by laws: voluntary and open membership, democratic control, member economic participation, autonomy and independence, education, training and information of members, co-operation among cooperatives and concern for the community. For a primary society to be registered, it must have at least 10 members all of whom are qualified for membership under Section 14. A member cannot hold more than 20% of the issued and paid up share capital of any cooperative society nor can he be a member of more than one cooperative society having the same or similar object. The members have one vote only in the affairs of the society irrespective of the number of shares held. There are general and special general meetings where ordinary resolutions are passed by majority vote and special resolutions by 75% of members present and voting at a special general meeting.

Every cooperative society is required to keep proper books of account prepared in accordance with generally accepted accounting standards. The accounts should be audited at least once in every year by an auditor appointed under section 25. Section 27 provides that the Committee of a cooperative society shall be the governing authority. Part 14 of the Act establishes a cooperative tribunal to arbitrate on cooperative disputes. Like registered companies, any two or more cooperative societies may, by special resolution amalgamate as a single society. The Registrar of societies is also empowered, under section 61, to order dissolution of a society and the consequent cancellation of registration.

According to Ouma (1990), cooperatives were first initiated in Kenya in the 1950's. Most of these cooperatives failed because of lack of appropriate operations and management systems. However,

since the introduction of Savings and Credit Cooperatives based on employment as a common bond, and following the check off system, these cooperatives have made a break through and have succeeded in a big way. By 2003, over 9000 cooperatives had been registered. Out of these, 46% were agricultural cooperatives while 38% were savings and credit cooperatives (SACCOs) supporting over 2.5 million people National Development Plan (2002 – 2008).

SACCOs are part of the financial system in Kenya. They receive savings from members in the form of shares or deposits and from this created pool serve the credit needs of members through personal loans. Session paper No.4 (1987) on “Renewed Growth through the cooperative movement” lists the following aims of SACCO societies: Mobilization of savings by encouraging members to have proper savings accounts through which they can conduct their financial transaction and thereby minimize the keeping of cash at homes. This helps in harnessing the would be idle cash and creation of national wealth, providing scrutiny and protection of member’s deposits, establishing adequate credit facilities for members encouraging utilization of capital mobilized within the SACCO for the benefit of members and allowing members through their elected directors to determine how the resources of the SACCO societies should be invested for their own benefit.

Prior to 1998 the government supported the cooperative movement through direct assistance and subsidized services. This ceased when the new cooperative societies Act and Sessional paper No. 6 of 1997 on cooperatives in a liberalized economy became effective. Cooperative are now free enterprises, expected to compete with the private commercial entities in the market. The cooperative movement has faced a turbulent period trying to adjust to the liberalized economy. The sector is faced with weak marketing structures, poor management and leadership capacity and a weak capital base. On the regulatory front, liberalization has had far reaching implications for cooperatives. The enactment of the 1997 co-operative Act has reduced Government involvement in SACCOs to regulatory and facilitative. This has left the SACCOs exposed to the market forces of supply and demand.

There has also been an increase in the number of institutions providing similar services. These include: Rotating Saving and Credit Associations (ROSCA), Micro Finance Institutions (MFI) and non-governmental organizations (NGO). Banks also have posed a major threat. They have reduced their interest rates and offer unsecured loans payable in a longer duration than those of SACCOs. These developments have brought about an environment in which survival of the SACCO depends on the ability of these institutions to effectively compete in the market. It is therefore important that SACCOs design and implement matching strategic and/or operational responses failing which they will suffer a strategic drift and loss of relevance.

1.2 Statement of the Problem

According to the literature reviewed, it is clear that co-operatives are more people oriented than being purely profit motivated. In an attempt to achieve their objective, SACCOs are faced with the problem of attracting, recruiting and maintaining skilled manpower, political interference, changing government policies, changing competition and keeping up with technological advancements. Election to the Board is democratic irrespective of qualification and experience. The current training programs focus exclusively on cooperative principles and the nature of cooperative law rather than on practical business principles.

Organizations' responses to the challenges of competition have been studied extensively. Chepkwony (2001), Isaboke (2001), and Murage (2001) among others have studied strategic responses of the oil industry. There have also been quite a number of studies in the banking industry. Some of them include Koros (2001), Gathoga (2001), Shimba (1993) and Ndegwa (1996). In the cooperative sector, Ongore (2001) has described the managerial response to deregulation of the cooperative sector, the case of SACCOs in Nairobi. Oyoo (2002) has sought to evaluate the financial performance of SACCOs before and after deregulation. He has also looked at SACCOs in Nairobi. Gachara (1998) looked at the operations of KUSCO.

As can be seen, most studies on responses to challenges of competition in the co-operative movement and other sectors have been based in Nairobi. Yet Nairobi is a special environment. Being a capital city, it's the headquarters of multinational organizations and most large local firms. It has good infrastructure and a very high population. The population is composed of a large

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number of upper class citizens with high disposable income, a large number of middle class people and an equally large number of low-income earners. Families are relatively small in size and their members younger as compared to those in rural areas. There are large numbers of the young, financially stable people with a high purchasing power and a knack for investment. All this means that the ability to save and therefore invest is higher in Nairobi than in any other town in Kenya.

Since most studies on competitive responses in the co-operative movement and other fields have been based in Nairobi. The researcher has chosen the SACCOs serving a rural population with the aim of establishing any departure in the challenges faced and the responses adopted. In view of the above the research question is. "What competitive challenges do SACCOs based in Eldoret encounter and how do they respond to the challenges."

1.3 Objectives of the Study

-) To establish the challenges of competition encountered by SACCOs in Eldoret.
-) To determine the responses of SACCOs in Eldoret to the challenges of competition.

1.4 Importance of the Study

This study will be important to the cooperative movement as a whole. It highlights the changing operating environment that cooperatives are now exposed to after the liberalization of the Kenyan economy in the 1980s. Since not much research has been done on responses adapted by SACCOs, this study is expected to establish the responses being undertaken to remain sustainable.

The study will also be of interest to government agencies and policy makers in the development of policy frameworks. Apart from contributing to the existing literature in the field, academicians will find it useful as a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Competition

The Oxford dictionary defines competition as the rivalry of two or more parties over something. It can be remote where players are isolated from each other, as in a free throw contest, or antagonistic where players are able to interfere with the performance of each other, as in a standard basketball game. In the business world, competition is rivalry between two or more businesses striving for the same customer or market. A company's closest competitors are those seeking to satisfy the same customers and needs and making similar offers. A company should also pay attention to latent competitors who may offer new or other ways to satisfy the same needs.

Over the years, business has taken place in a highly competitive and volatile environment. Globalization and strong competition has necessitated management and control in a global marketplace, competition in world markets, global work groups and global delivery systems. There has been a transformation of industrial economies which has led to knowledge and information-based economies. This in turn has led to an increase in new products and services, time-based competition and shorter product life cycles among others. Transformation of the enterprise has brought about flattening, decentralization, low transaction and coordination costs, collaborative work and teamwork. Other drivers of change include the changing nature of the workforce, powerful customers, technological innovation and obsolescence, information overload, corporate social responsibility, government regulation and deregulation and the ever shrinking budgets and subsidies, PricewaterhouseCoopers (2003).

According to Suave (2002), the environment is a critical factor for any organization's survival and success. It consists of all the conditions and forces that affect its strategic options and defines its competitive situation. Executives have to swiftly respond and adjust to any changes in the competitive environment. They must stay abreast of competitors' announcements, mergers and the direction of industry trends. R&D needs to keep tabs on the products and services competitors are developing while the sales force needs industry competition intelligence to monitor what competitors are offering the prospects. Basically, competitors' strategies, objectives, strengths and weaknesses have to be ascertained. These go a long way towards explaining their likely actions and reactions to company moves. Competitors can be identified using both industry and market

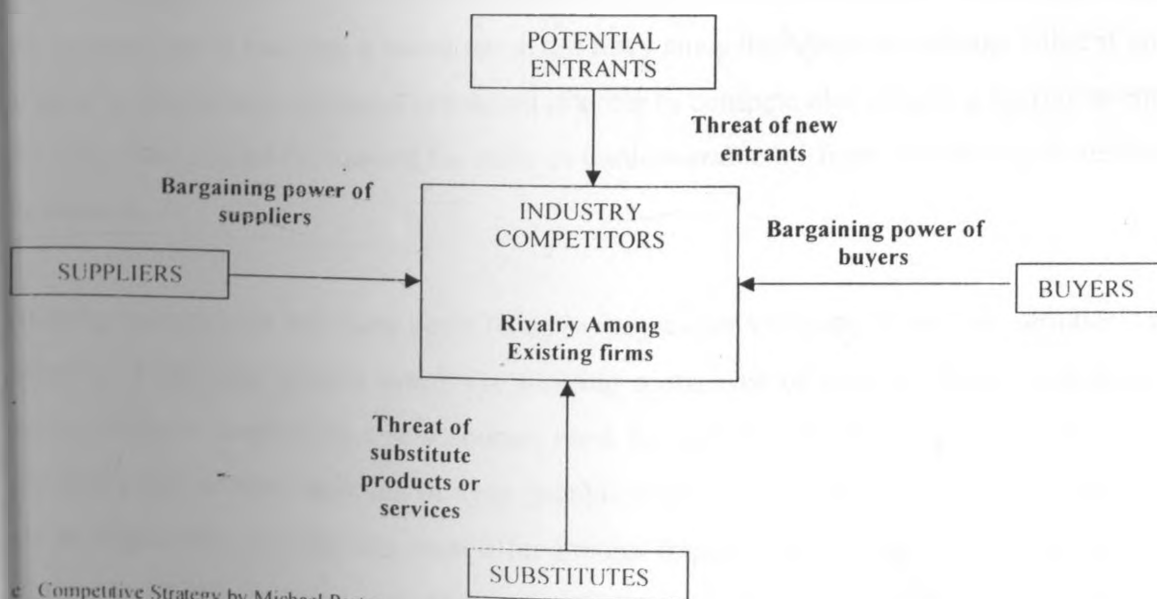
based analysis. Under the industry concept of competition, an industry is defined as a group of firms that offer a product or class of products that are close substitutes for one another. Using the market approach competitors are companies that satisfy the same customer needs Kotler, (1991). This study focuses on the industry approach.

2.2 Industry Analysis

The essence of formulating competitive strategy is relating a company to its environment. Although the environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies available to the firm. Porter first coined the concept of industry environment in an article in the Harvard Business Review. (1979). According to the article, there are five forces that shape competition in an industry. These include threat of new entrants, threat of substitutes, rivalry within the industry, bargaining power of buyers and bargaining power of suppliers. These are the factors that make up the industry environment and are used in formulation of strategy by firms in a particular industry. All five competitive forces jointly determine the intensity of industry competition and profitability as presented in figure 1.1.

Porter's Five Forces Model For Industry Analysis

Figure 1.1



2.2.1 Threat of New Entrants

New entrants in an industry bring new capacity, the desire to gain market share, and often substantial resources. Prices can be forced down or incumbents' costs inflated as a result, reducing profitability. The threat of entry into an industry depends on the barriers to entry that are present and the reaction from existing competitors that the entrant can expect. If barriers are high and/or the newcomer can expect sharp retaliation from entrenched competitors, the threat of entry is low. The major sources of barriers to entry include: economies of scale, product differentiation, capital requirement, switching costs, access to distribution channels and government policy.

Economies of scale refer to declines in unit costs of a product, or operation or function that goes into producing a product as the absolute volume per period increases. Economies of scale deter entry by forcing the entrant to come in at large scale and risk strong reaction from existing firms or come in at a small scale and accept cost disadvantage, both undesirable options. New entrants are also faced with cost disadvantages that are independent of scale. This is where established firms have cost advantages not replicable by potential entrants no matter their size and attained economies of scale. These advantages include: proprietary product technology, favorable access to raw materials, favorable locations, government subsidies and the learning or experience curve.

Product Differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties. This effort usually involves start-up losses and often takes a long time. Such investments in building a brand name are risky since they have no salvage value if entry fails. The need to invest large financial resources in order to compete also creates a barrier to entry, especially if the capital is required for risky or unrecoverable up-front advertising or research and development.

Switching costs are the one-time costs faced by buyers for switching from one supplier's product to another's. They may include employee training costs, cost of new ancillary equipment, cost and time in testing or qualifying a new source, need for technical help as a result of reliance on seller engineering aid, product redesign or even psychic cost of severing a relationship. If these switching costs are high, then new entrants must offer a major improvement in cost or performance in order for a buyer to switch from the incumbent. Access to distribution channels is another important entry

barrier. The more limited the wholesale or retail channels for a product are and the more existing competitors have these tied up, the tougher entry into the industry will be. Existing competitors may have ties with channels based on long relationships, high-quality service or even exclusive relationships. The new entrant must persuade the channels to accept its product through price breaks, cooperative advertising allowances, and the like which reduce profits.

2.2 Pressure from Substitute Products

Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. The more attractive the price-performance alternative offered by substitute, the firmer the lid on industry profits. Organizations should pay attention to substitute products that are subject to trends improving their price-performance trade-off with the industry's product or are produced by industries earning high profits. Substitutes often come rapidly into play as some development increases competition in their industries and causes price reduction or performance improvement.

2.3 Bargaining Power of Buyers

Buyers compete with the industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other. A buyer group is powerful if it is concentrated purchases large volumes relative to seller sales and if the products it purchases from the industry; represents a significant fraction of its costs or purchases, are standard or undifferentiated and are important to the quality of the buyers' products or services. The existence of high switching costs lock the buyers to particular sellers. Buyer power is therefore enhanced if it faces few switching costs. The threat of backward integration as well as availability of information also enhances buyer power.

These factors change with time, or as a result of a company's strategic decisions, naturally the power of buyers rises or falls. A company can improve its strategic posture by finding buyers who possess the least power to influence it's adversely.

2.2.4 Supplier Power

Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices. The conditions making suppliers powerful tend to mirror those making buyers powerful. The power of each important supplier group depends on its market situation and on the relative importance of its sales to the industry compared with its overall business.

2.2.5 Rivalry Among Existing Competitors

Rivalry among existing competitors takes the familiar form of jockeying for position – using tactics like price competition, advertising battles, product introductions, and increased customer service or warranties. Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve position. In most industries, competitive moves by one firm have noticeable effects on its competitors and may incite retaliation or efforts to counter the move. If moves and counter moves escalate, then all firms in the industry may suffer and be worse off than before.

Some forms of competition, notably price competition, are highly unstable and quite likely to leave the entire industry worse off from the standpoint of profitability. Price cuts are quickly and easily matched by rivals, and once matched they lower revenues for all firms unless industry price elasticity of demand is high enough. Advertising battles, on the other hand, may well expand demand or enhance the level of product differentiation in the industry for the benefit of all firms.

1 Organizational Responses

Influenced by the dynamic and unpredictable environment, firms employ various competitive strategies to ensure success. Ansoff (1988), defines competitive strategy as the distinctive approach, which a firm uses to succeed in the market. To ease the complexity of strategy formulation and implementation, the decision-making hierarchy of a firm typically contains three levels. Jay and Bourgeois (1998), outlines the three levels as: the corporate level, which is responsible for market definition, business level, responsible for market navigation and functional level which is the foundation that supports the other two levels.

3.1 Corporate Strategies

Globalization has broken geographical barriers creating a global market place. At the same time, technological innovation and the transformation of economies has made available and created markets for unlimited products and services. Given the limitless opportunities to choose from, corporate-level strategies define the strategic scope of the enterprise. This involves deciding in which product or service markets to compete and in which geographic regions to operate. Decisions at corporate level are complex: they tend to be more value oriented, more conceptual and less concrete. They are characterized by greater risk, cost and profit potential, greater need for flexibility and longer time horizons, Pearce and Robinson (2007). To deal with this complexity, corporate-level strategy decisions can be classified into three different types, or grand strategies. These are: growth strategies, retrenchment/reduction strategies, and stability strategies

Growth Strategies

Many firms fail to acquire their optimum market share due to inefficiencies and excess capacity or capacity under-utilization. Growth strategies expand an organization's performance, usually as measured by sales, profits, product mix, market coverage, market share, or other accounting and market-based variables. Lorange (1980). In response to inefficiencies, the concentration strategy may be employed. The firm attempts to achieve greater market penetration by becoming highly efficient at servicing its market with a limited product line. Diversification strategy may be used where excess capacity exists. This entails moving into different markets or adding different products to its mix. If the new products or markets are related to existing product or service related, the strategy is called concentric diversification. If expansion is into products or services unrelated to the firm's existing business, the strategy is referred to as conglomerate diversification.

According to Pearce and Robinson (2007), a firm may want to increase the dependability of the supply or quality of raw material used as production inputs, especially when the suppliers are few and the number of competitors is large. This calls for backward integration where the firm attempts to expand the scope of its current operations by undertaking business activities formerly performed by one of its suppliers. A firm can increase the predictability of demand for its output through forward integration; that is owning the next stage of its production-marketing chain, Hamama (2006).

According to Muchai (2006) globalization has pushed firms to seek collaboration with other players in the industry to enable them to compete effectively. These collaborations take the form of strategic alliances, mergers and acquisitions, licensing, franchising and partnerships. Shollei, (1999) emphasizes that in order to fortify a firm's position against predators, it is important to collaborate. Market development strategy is developed to capture a larger market share of an existing market for current products through market saturation and market penetration, Barnerjee (1999).

Stability Strategies

When firms are satisfied with their current rate of growth and profits, they may decide to use a stability strategy. This is essentially a continuation of existing strategies. Such strategies are typically found in industries operating in relatively stable environments. The firm is often making a comfortable income operating a business that they know, and see no need to make the psychological and financial investment that would be required to undertake a growth strategy, Porter (1998).

Retrenchment/Reduction Strategies

For any one of a large number of reasons, a firm can find itself with declining profits. Among these reasons are economic recessions, production inefficiencies and innovative break through by competitors. To survive and eventually recover, such firms must make concerted effort to fortify their distinctive competencies, Pearce and Robinson (2007). The grand strategy involved is retrenchment/reduction strategies. Retrenchment strategies involve a reduction in the scope of a corporation's activities, which also necessitates a reduction in the number of employees, sale of assets associated with discontinued product or service lines, possible restructuring of debt through bankruptcy proceedings, and in the most extreme cases, liquidation of the firm, Hambrick et al (1982).

According to Byars (1991), turnaround strategy is an attempt to improve efficiency of the operations during a decline of an organization's financial situation. Firms pursue a turnaround strategy by undertaking a temporary reduction in operations in an effort to make the business stronger and more viable in the future. These moves are popularly called downsizing or rightsizing.

It is hoped that going through a temporary belt-tightening will allow the firm to pursue a growth strategy at some future point. As they pursue growth, some companies diversify excessively, especially through conglomerate diversification, to become huge portfolios of disparate brands. The firm eventually faces partial mismatches between the acquired firms and the parent corporation as well as stagnant revenues and earnings. A divestment strategy is where such a firm elects to sell one or more of the businesses in its corporate portfolio as a means of cost reduction, Naylor (1996). Typically, a poorly performing unit is sold to another company and the money is reinvested in another business within the portfolio that has greater potential.

When a firm's revenues decline consistently, it becomes impossible to pay off debts as they fall due. Suppliers may demand advance payments while customers require assurance that future orders will be delivered and some of the customers buy from competitors. The firm ends up with more debts than assets, a high employee turnover and a tainted image. Such desperate firms file for bankruptcy, Pearce and Robinson (2007). Bankruptcy involves legal protection against creditors allowing the firm to restructure its debt obligations or other payments, in a way that temporarily increases cash flow. Liquidation is the most extreme form of retrenchment. Liquidation involves the selling or closing of the entire operation. There is no future for the firm; employees are released, buildings and equipment are sold, and customers no longer have access to the product or service. This is a strategy of last resort and one that most managers work hard to avoid, Muturi (2004). According to Thomson and Strickland (1993), other strategies that enhance a company's strategic position include: Using Offensive and Defensive strategies and First-Mover advantages and disadvantages. Offensive strategies can be mounted through attacks on competitor strengths and weaknesses as well as simultaneous attacks on many fronts. Guerilla offensives and pre-emptive moves are other basic methods. The purpose of defensive strategy is to lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challengers to aim their efforts at other rivals. First-Movers sometimes gain strategic advantage; at other times, it's cheaper and easier to be a follower than a leader, Kotler (1991).

2.3.2 Business Strategies

Strategic responses deal with grand strategies that are important for a successful future. Business responses make this a reality. Harvard Business School's Michael Porter (1985) developed a framework of generic strategies that are viable at the business level. The strategies are overall cost leadership, differentiation, and focus on a particular market niche. The generic strategies provide direction for business units in designing incentive systems, control procedures, operations, interactions with suppliers and buyer and in making other product decisions.

According to Anyango (2005), cost-leadership strategies require firms to develop policies aimed at becoming and remaining the lowest cost producer and/or distributor in the industry. Such strategies concentrate on construction of efficient facilities, tight cost and overhead control, avoidance of marginal customer accounts that cost more to maintain than they offer in profits, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. The low-cost leader gains competitive advantage by getting its costs of production or distribution lower than the costs of the other firms in its relevant market. Thompson and Strickland (2003), argue that the cost leadership strategy benefits the firm in that it is able to withstand intense price competition and buyers may appreciate the offer for low prices. This strategy is especially important for firms selling unbranded products viewed as commodities, such as beef or steel. Cost leadership provides firms with above-average returns even with strong competitive pressures. It may be attained via a number of techniques. Products can be designed to simplify manufacturing. A large market share combined with concentrating selling efforts on large customers may contribute to reduced costs. Extensive investment in state-of-the-art facilities may also lead to long run cost reductions. Porter (1985). Efficiencies that allow a firm to be the cost leader also allow it to compete effectively with both existing competitors and potential new entrants. Finally, low costs reduce the likely impact of substitutes.

Porter (1998) explains that differentiation strategies require a firm to create something about its product that is perceived as unique within its market. Customers must perceive the product as having valuable features not commonly found in competing products. The customers also must be relatively price-insensitive. Adding product features means that the production or distribution costs of a differentiated product will be somewhat higher than the price of a generic, non-differentiated

product. Customers must be willing to pay more than the marginal cost of adding the differentiating features if a differentiation strategy is to succeed.

Possible strategies for achieving differentiation may include warranty, brand image, technology, features, service, and dealer network among other dimensions. Grant (2000), argues that the essence of differentiation is to be unique in ways that are valuable to customers and that can be sustained. Differentiation often forces a firm to accept higher costs in order to make a product or service appear unique. The uniqueness can be achieved through real product features or advertising that causes the customer to perceive that the product is unique, Kitoto (2005).

Focus involves concentrating on a particular customer, product line, geographical area, channel of distribution, stage in the production process or market niche, Porter (1998). According to Hunger (1995), focus seeks a cost advantage in its target segment. The firm is better able to serve its limited segment than competitors serving a broader range of customers. Firms using a focus strategy apply cost-leadership or differentiation strategies to a segment of the larger market. They are better able to tailor advertising and promotional efforts to a particular market niche. Trethowan and Scullion (1997), found out that banks in the United Kingdom and Irish republic have previously attempted to "do all things to all men: As they embarked on mass marketing campaigns. With increased competition and other challenges, new efforts are being expended in determining and focusing on customer segments providing the most profit potential.

In the broadest context, formulation of competitive strategies involves considering four factors that determine the limits of what a company can successfully accomplish. These are the firm's strengths and weaknesses, industry opportunities and threats, personal values of the key implementers and broader societal expectations. It is important for organizations to identify specific key aspects that will be used to identify the competitive strategies to be adopted. Bunnet (1999), calls them critical success factors. Some common ones are fast and reliable delivery, product quality and customer service, ease of product modification, appealing features, and the ability to fulfill a clear market need.

2.3.3 Functional Strategies

Functional tactics are the key, routine activities that must be undertaken in each functional area (Pearce and Robinson (2007)). They are concerned with coordinating the functional areas of the organization so that each upholds and contributes to individual business-level strategies and the overall corporate-level strategy. This involves coordinating the various functions and operations needed to design, manufacture, deliver, and support the product or service of the organization or of each business within the corporate portfolio. The operations of functional strategies determine how and where a product or service is to be manufactured, the level of vertical integration needed, the employment of physical resources required and the relationship with the suppliers required, (Muthama (2006)). Functional strategies translate grand strategy at the business level into action plans for subunits of the company. Juan and Glueck (1988), say well executed functional strategies gives an organization competitive and valuable competencies, capabilities and resource

Planning and control tactics are intended to match production/operations resources with long range overall demand. These tactical decisions will determine whether production will be demand oriented, inventory oriented, or outsourcing oriented, Pandey, I.M (1995).

prominent aspects at this level include reengineering, just-in-time (JIT) delivery, outsourcing, statistical process control (SPC), and total quality management (TQM). Reengineering is the fundamental re-thinking and radical redesign of business processes to achieve improvements in critical measures of performance, such as cost, quality, service and speed (Pricewaterhouse 1997).

It involves smaller, frequent deliveries of supplies and is intended to reduce inventory carrying costs. Firms often consider outsourcing when they need to concentrate on their core business for competitive advantage. In such cases, non-core activities in the value chain are outsourced from external companies, Armstrong (1999). Outsourcing is a major operational tactic in today's downsizing/rightsizing-oriented firms. Rightsizing involves establishing the optimum number of employees that a firm requires to operate effectively and efficiently. An organization can also adapt Total Quality Management (TQM) which is built around the intense focus of customer satisfaction, on critical measures of every critical variable in a business operations, on continuous improvement of products, services and processes, on working relationships based on trust and teamwork, Pearce and Robinson (2003). Marketing tactics should guide sales and marketing managers in determining

who will sell what, where, to whom in what quantity and how. At a minimum marketing tactics must address the four fundamental areas of the marketing mix: products, price, place, and promotion Kotler (1991).

Other operational responses include; empowerment of employees through training and creating an attractive workplace where they can demonstrate their abilities, improved decision making and policy formulation, social responsibility which embraces equal opportunity, environmental control, health and safety, reducing cycle time and time to market, restructuring and team based structure and improvement efforts among others, Ndumbi (2005).

3.2 Research Design

This research adopted census design where all the SACCOs in existence as at the time of the study were studied. The population was not considered large and a study of the whole population was considered feasible. The objective of the study was to establish the competitive challenges SACCOs face and determine the strategies they use in response to these challenges. An over 60% response rate was expected since other studies in the sector have yielded an over 60% response rate. Oyoo (2002) had 100% response rate while Gachara (1998) had 68.2% response rate.

3.1 Population

According to the Ministry of Cooperative Development Report for the year 2006, there were 78 registered savings and credit cooperative societies in Eldoret. 44 out of these were recorded as being active while the other 34 were regarded as dormant for failure to observe legal regulations for about 3 previous years by the year 2006. The population of interest included all the 44 active SACCOs (Appendix II). 30 out of the 44 SACCOs that were studied responded constituting a sample size of 68% of the entire population of active SACCOs.

3 Data Collection Methods

Primary data was collected for this study. The data was collected using a questionnaire containing both structured and unstructured questions (See appendix II). The questionnaire consisted of three parts, A, B and C. Part A was used to gather general information such as year of establishment, number of employees, customers targeted and competitors. Part B was used to identify competitive challenges encountered by SACCOs. Part C was used to identify the responses adapted by SACCOs.

The questionnaire was administered personally by the researcher to all the 44 respondent SACCOs. Follow up was done on telephone and questionnaires were collected when filled. This method had been successfully used in similar studies by Karemu (1993), Abelial (1996) and Oyoo (1997) among others. The respondents included senior managers who are involved in

strategic planning or persons designated by the managers. They were expected to be officers in the position of General manager, Finance Manager, Treasurer, Chairman and Secretary.

3.4 Data Analysis Techniques

Data analysis in this study was by use of descriptive statistics. This included tables, proportions/percentages, mean scores and standard deviations to achieve the set objectives.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter documents the findings of the main challenges of competition faced by SACCOs in Eldoret as well as the responses they have adopted in response to these challenges. The chapter is organized into three sections. The first section sort to provide general information on the SACCOs concerned. The second section aimed at establishing the challenges of competition encountered by the SACCOs in Eldoret while the third section focused on their responses to the challenges of competition. The questionnaire was also organized into three parts and data for each section of this chapter was drawn from its respective part of the questionnaire. The responses received from part A of the questionnaire were analyzed for profile to determine common characteristics among the respondents. The profile details examined included; the years the SACCO has been in operation, the branch network and services offered.

4.1.1 Years of Operation

The demographic characteristics were relevant to the research since it was expected that very young SACCOs, (1-5 years), may not pay much attention to competitive strategy and may not have experienced enough challenges to call for it. At the same time, SACCOs that have been in existence too long, (50 years and above), may enjoy some competitive advantages not available to the young and middle age operators. The profile of years in operations is shown in table 1.

Table 1 Years of Operation

Years of Operation	Frequency	Percent
10	8	27
20	6	20
30	10	33
40	6	20
Total	30	100

The analysis of the demographic characteristics of the studies indicated that majority of SACCOs, 63% have been in existence for more than 20 years and the remaining 37% have operated for less than 20 years. Most of the SACCOs that have operated for less than 20 years have actually been in existence for between one to ten years. The conclusion drawn from the responses on years of operation is that the respondent SACCOs have been in operation for years ranging from 5-40 years. Regardless of the years in operation the SACCOs bear similarities in their basic structures.

2 Branch Distribution

The study found out that most of the SACCOs (63%) have no branches. This was because most of them (73%) are employee owned and the employers operate only in Eldoret. The study found out that the presence of branches depended on the type of employer and the scale of operation. Those SACCOs affiliated to employers who have a national network have the highest possibility of having more than one branch. The SACCOs tend to be concentrated where the employer was located. Figure 2 shows the nature of branch distribution of the SACCOs studied.

Table 2: Branch Distribution

Branches	Frequency	Percentage
No Branch	19	63
1-10 Branches	9	30
Over 10 Branches	2	7
Total	30	100

The branch distribution network was observed to be dependent on the affiliated employer network .

The SACCOs studied tended to have branches according to the branch network of the affiliated employer.

4.1.3 Services Offered by SACCOs

The types of services offered are shown in the table 3.

Table 3: Services Offered by SACCOs

Services offered by SACCOs	No of SACCOs	Percentage
Business Loans	20	67
Agricultural loans	16	53
Personal/consumer loans	28	93
Savings	12	40
Insurance	2	7
Money transfer	4	13
Leasing	2	7
Training	8	27

Most of the Saccos are created with the aim of offering cheaper savings and financial assistance to members as indicated by the high percentages of between 53-93 for business loans, consumer loans and agricultural loans. Most of this SACCOs serve employees, small scale traders and farmers. The savings were normally in form of deductions of a fixed amount (recommended by the member) from the member's income every month. The amount deducted is then remitted to the SACCO account. The total contribution by each member is popularly referred to as the member's shares. Loans to members are cheap in the sense that interest rates are very low, normally 12% per annum or 1% month, compared to those of commercial banks and do not require collateral. Each loan is guaranteed by at least three members of the SACCO. All the SACCOs studied gave loans to the members in proportion to their "shares". Members are allowed to borrow up to three times their contribution. Each member was allowed up to three loans at a time. These are emergency loans (school fees and medical loans, both payable within one year) and business development loans. The development loan can be used for projects like building a house, starting a business, buying a car, furnishing a house etc. the repayment period was not fixed.

Other services offered by SACCOs include the front office services. The members are allowed to operate an account where they can receive their salaries, deposit and withdraw cash and clear cheques. These accounts are independent of the member's contributions. The interest rates charged on the loans is the basic form of income for the Sacco especially the young ones. However, many SACCOs have invested in property like commercial land and buildings that generates rental income. Short-term excess cash is invested in government securities and short term fixed deposits. Most SACCOs disburse the loans directly to members by way of cheques. This may be to allow the

members enjoy their freedom. The farmer's SACCOs however disburse loans to the suppliers in cases where the loans are meant to buy farm inputs. The SACCOs that offer money transfer services are those associated with the elite. For example Moi University SACCO while insurance services are offered by SACCOs serving an industrial population, for example KENIT SACCO.

4.2 Challenges of Competition

This section focuses on the first objective of the study which was to establish the challenges of competition encountered by SACCOs in Eldoret. Data was collected through questionnaires which were administered by the researcher to the respondent SACCOs. The primary purpose of this section of the questionnaire was to establish the intensity of industry competition which in turn determines the challenges of competition faced by organizations in the industry.

The data was captured on a five -point rating scale where, 1 = to no extent at all while 5 = to a very greatest extent. Mean scores were calculated where a score of 1 meant no extent at all while a score of 5 meant to a very great extent. The results were interpreted as follows: the higher the mean score, the higher the challenge and the lower the mean score, the lower the challenge posed by the factors under consideration. Analysis of the challenges of competition was largely based on Porter's model of industry environment. The results are presented in table 4.

Table 4 Threat of New Entrants

Sources of barriers to entry	Mean	Std deviation
The resource capability of competitors	3.50	1.02
Level of diversification	2.86	0.95
Proprietary product differences	3.31	0.75
Favorable locations	3.45	0.85
Learning or experience curve	1.69	0.63
Marketing abilities	3.36	1.08
Market research and product design	2.14	0.86
Expected retaliation	1.50	0.52

SACCOs rate the resource capability of competitors, with a mean score of 3.50, as the major barrier to entry into the financial sector. Respondents, however, lacked agreement on the strength of marketing abilities and the resource capability of competitors as barriers to entry. This is because the two variables have a standard deviation of larger than one. Expected retaliation presents the least of barriers to entry with a mean score of 1.50. Respondents are generally in agreement as concerns expected retaliation as indicated by the small standard deviation of 0.52.

The research found out that SACCOs face a strong threat of substitution of their products and services. This is explained by the fact that some of their competitors are high reputation organizations which is a competitive advantage in itself. They have the resource capability to change buyer and consumer perceptions and confidence.

The results of new or different ways of satisfying customer needs are summarized in table 5.

Table 5: Substitutes Products Considered a Threat to SACCOs.

Substitute products	Mean	STD DEV
Bank loans	3.93	0.50
Home purchase	2.34	1.21
Fund raising	2.29	1.29
Unit trust funds	2.12	1.14
Education policies	3.57	1.16
Merry-go rounds	2.10	0.76
Shares	2.79	0.80

The respondents are to a great extent concerned about loans from commercial banks as indicated by the high mean score of 3.93. SACCOs consider merry-go-rounds almost irrelevant and thus the low mean score of 2.10.

The research findings indicate that SACCOs are powerful buyers as demonstrated by their influence on volumes, charges, the payment method, and the nature/presentation of their products and services. As suppliers, SACCOs are powerful since their clients have limited choices. The cooperative laws and the fact that most SACCOs serve specific particular suppliers. The other factors affecting the power of SACCOs as buyers and suppliers are as shown in table 6.

Table 6: The power of SACCOs as Buyers and Suppliers

Buyer Power	Mean	STD DEV
Limited knowledge of the market	2.96	1.17
Ownership structure	2.76	1.28
Risk of withdrawal by members	3.00	1.36
Threat of backward integration by customers	2.86	1.29
SACCO's choice of client groups – client selection to minimize their bargaining power	2.17	1.58
Supplier Power		
Concentration of potential clients in the population	2.12	0.61
Number of SACCOs competing for clients	2.10	0.86
Threat of forward integration	2.31	1.54

The bargaining power of SACCOs as buyers greatly reduced by the risk of withdrawal by members with a mean score of 3.00 while the lowest challenge came from the number of SACCOs competing for clients with a mean score of 1.10. On the other hand, the greatest challenge to the power of SACCOs as suppliers came from the threat of forward integration with a mean score of 2.31 while the lowest challenge is the number of SACCOs competing for the same clients. The larger than one standard deviation for most of the variables suggest that there is either a lack of agreement among respondents or failure to understand the questions.

Responses to Challenges of Competition

This section focused on the second objective, which was to determine the responses of SACCOs in Eldoret to the challenges of competition. The data in this section was also collected using a five-point rating scale where, 1 = to no extent at all while 5 = to a very greatest extent. Mean scores

were calculated where a score of 1 meant no extent at all while a score of 5 meant to a very great extent. Mean scores were calculated where a score of 1 meant no extent while a score of 5 meant a very great extent. The results were interpreted as follows: the higher the mean score, the higher the extent to which SACCOs engage in the activities concerned and the lower the mean score the lower the extent to which SACCOs engage in the identified activities.

The researcher had expected that the responses adopted by SACCOs would target those core services and products offered by the same SACCOs. The responses would realign the SACCOs to the operating environment. These would be intended to give strategic advantage to the SACCOs as compared to the competitors. The objective would be to position the SACCOs studied where they could best defend themselves against competing firms. The results were as presented in table 5.

Table 7: Products and Services

Responses	Mean	STD DEV
Offering products and services not offered by competitors	3.07	0.51
Providing a longer repayment period for loans'	1.11	0.70
Offering refinancing arrangements when required by borrowers	1.17	0.65
Offering lower minimum deposit for savings	4.12	0.68
Higher saving withdrawal frequencies	2.31	0.68
Charging lower interest rates on loans	4.65	0.62
Minimizing size of loans	2.17	1.58
Making collateral requirements for loans easier.	2.31	0.54
Keeping transaction costs lower than that of competitors	1.12	1.61

The results show that respondents consider charging lower interest rates on loans as the most appropriate response to the challenges of competition and thus the high mean score of 4.65. They

give some thought to other factors except for keeping transaction costs lower than that of competitors.

Table 8: Additional Responses to Marketing and Other Initiatives

Responses	Mean	STD DEV
Reduction of complaints	4.07	0.50
Identification of customer needs	4.36	0.78
Employing competent staff	3.33	0.65
Having a good system of receiving feedback from clients	3.26	1.10
Use of an information system that makes customer service quick and reliable	3.31	0.78
Rewarding outstanding members	2.71	1.07
Efficient cash management systems	3.26	1.10
Relationship marketing	3.29	0.74
Matching competitor moves	4.02	0.50

All the SACCOs agreed that identification of customer needs and reductions of complaints were the major initiatives that would steer their businesses in the desired direction. This is reflected by the high mean scores of 4.36 and 4.07 respectively. The lower than one standard deviation also indicates consensus among respondents. Matching competitor moves, with a mean score of 4.02 was also important owing to the homogeneous nature of products in this sector. Rewarding outstanding members is not considered a major initiative. However, the larger than one standard deviation reflect diverse responses with extreme cases of not at all to a very great extent from respondents.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The first objective sought to identify the major challenges of competition encountered by SACCOs in Eldoret. The results indicated that the resource capability of competitors, their favorable locations and higher marketing abilities presented the greatest challenges to SACCOs while unit trust funds presented the least challenge. Other challenges include the lack of proprietary product differences and a low level of diversification. New entrants in the industry do not seem to expect any sharp retaliation from entrenched players. SACCOs' ability to retaliate may be limited by their limited resource capability, marketing abilities and unfavorable rural locations.

Most SACCOs face the problem of limited access to funds. Other than the cost of operations that which mainly include rent and salaries, SACCOs require funds to give out loans to members whose demands for loans has gone higher than they can sustain. This may explain why some SACCOs try to raise their capital base through forced savings where members are required to increase their share contribution on pro-rata basis on taking a loan. A marked lack of marketing abilities was observed. This may be attributed to the fact that SACCOs normally served people of same characteristics (e.g. same employer, same community) therefore they saw no need to market their services. The SACCO movement has been highly regulated and controlled by the government over some years. The negative control mechanisms and the fact that marketing was not an area of training at the cooperative college until recently also explains the poor marketing capabilities.

The greatest attraction for SACCO products and services has been the low interest rates. Commercial banks and other micro-finance organizations have recently reduced their interest rates

on short-term personal lending making their loans the greatest and most challenging substitutes for SACCO loans. This is because by giving loans at attractive interest rates, longer repayment periods, and to up facilities, the banks are taking up a sizeable part of the SACCO's market share which means less funds flowing into SACCOs as interest on loans and contribution to shares. The fact that unit trust funds present the least challenge of substitution may be because they are relatively new in the market. Their interest rates are relatively low and they do not constitute a challenge yet.

The researcher established that SACCOs have little power as buyers. The products and services they offer are very important for their own survival, yet the risk of withdrawal by members is one of their greatest challenges as buyers. Other variables that limit the power of SACCOs as buyers include the threat of backward integration by members, ownership structures, limited knowledge of the market and the fact that SACCOs cannot practice client selection with the aim of minimizing their bargaining power.

Following liberalization and the turbulent operating environment, many enterprises have been forced to restructure and cut down on staff. This may explain the high rates of withdrawal by members since majority of SACCOs are employer based. Most SACCOs focus on members alone which resulted in limited knowledge of the market and thus the failure to foresee the greater effect of competitors coming. The regulations governing the formation of SACCOs and the initial capital requirement do not present a major threat to entry into this field. Members also face minimum costs of switching from one SACCO to the next. This explains the threat of backward integration by customers which further undermines the power of SACCOs as buyers.

In the same vein, SACCOs have little power as suppliers. The low concentration of potential clients in the population, the large number of product and service providers competing for the same clients and the threat of forward integration make it very difficult for SACCOs to exert bargaining power over participants in the industry by threatening to raise interest rates or reduce the quality of purchased products and services.

The second objective of the study was to determine the responses adopted by SACCOs to the challenges of competition. Undeniably Commercial Banks and Micro Finance Institutions provide the greatest challenge to SACCOs. This could explain why some SACCOs are in the process of re-evaluating their repayment periods and designing additional financial products to be able to compete. The need to improve the SACCOs capital base has resulted in some cases of forced savings where members are required to increase their share contribution on pro-rata basis on taking a loan. At the same time, non-functional structures that were set up some years ago are replaced with operational structures like IT and training of manpower. The larger and employment based SACCOs, like the Moi University SACCO, have entered into alliances with banks and micro finance institutions. This has enabled them to offer larger loans and for longer repayment periods. They have a sharper focus on customers which has led to a wider range of products and improved customer care. Some have introduced front office services and customers can access their accounts through commonly owned teller machines.

5.2 Conclusion

The researcher discovered that SACCOs face several other bottlenecks in their efforts to remain competitive. High cost structures and staff turnover were identified as the most common challenges. At the same time, SACCOs require funds to refurbish non-functional structures that were set up some years ago. There is a marked lack of capability to assess the performance of their competitors and at the same time identify the taste of their consumers. The SACCOs have not fully embraced the importance of competent staff and the need to train them in customer care. Certain organizations also present remarkable challenges to the development of SACCOs. These include commercial banks, credit traders, micro finance institutions, employee welfare schemes and organizations that provide long-term finance.

Most of the smaller SACCOs have not popularly embraced appropriate responses to the challenges of competition, as clearly identified by this research. The most commonly used competitive strategy by the SACCOs was marketing of services. The SACCOs do this in the form of gifts to outstanding borrowers, interest rebates where repayments are on schedule or even faster, and personal advertisements to attract more members and more borrowers. Other responses used include the allowing of higher savings withdrawal and minimizing the size of loans in order to allow members to borrow more. SACCOs have also identified the need to offer incentives to their staff to improve their performance.

The need to employ and train competent staff in customer care has gained prominence in all sectors and SACCOs have not identified the two as critical to their survival and service and product delivery. Another response found to have been ignored by the SACCOs was information

technology. The SACCOs sampled were found to use manual method of transaction processing and most employees are computer illiterate. Information technology should be adopted by the SACCOs not only as a means of cutting the operating cost but also as a means to quality service to the customers. Embracing information technology would require training of staff, linking of SACCOs with branches and purchase of more computers.

5.3 Recommendations

5.3.1 Recommendations for Further Research

The competitive situation is rapidly changing, with most factors both in the organizations immediate and remote environment becoming increasingly versatile and fluid. The SACCOs therefore find themselves, like most other organizations having to grapple with uncertainty, new entrants in the industry as well as increasing competition. The researcher has established that the key factors that impact on SACCOs under study were mismanagement, fraud, and even outright theft by the executive management committee officials and senior managers. Unlike commercial banks, which have industry code of conduct and prudential guidelines and are closely supervised by central bank, SACCOs have no centralized supervising authority that instills discipline. Further research in the following areas would therefore prove useful in not only adding to the body of knowledge but also for formulation of policy and strategy in these organizations.

- i. An investigation into the relationship between ownership, leadership and the degree of responsiveness to changes in the environment.
- ii. An investigation into the strategic alliances with other financial institutions.
- iii. An investigation into methods of global market entry.
- iv. An investigation into issues of cooperate governance in SACCOs

5.3.2 Recommendations for Policy and Practice

In light of the findings of this research, it is necessary for SACCOs to monitor trends in their major competitors like commercial banks and insurance companies and investment companies which are likely to impact their profits and market share in the future. These are offering longer-term finance.

introducing unit trust funds and engaging in strategic alliances with manufacturers and retailers. By catering for a wide range of financial services, these institutions deliver more value to their customers thus retaining their customer base.

With so many competitors coming into the market, there is critical need to empower the SACCOs to be able to properly assess the performance of their competitors and at the same time identify the tastes of their customers. Market research will go along way in helping SACCOs redesign their products. The marketing abilities of the SACCOs also need to be sharpened. This will not only enable them retain their current membership but also attract new membership. SACCOs may consider diversification into finance related products to enable them effectively compete with financial institutions and other substitute product providers. This will involve a redefinition of their chosen market segments to search for resources beyond the employable population and national boundaries. Off-shore resources can facilitate society's search and exploitation of opportunity globally. SACCOs can also consider providing service to non-members at a premium fee. This can include saving facilities or and providing guarantees.

Allowing repayment through cheques and or direct deposits can give members chance to increase savings and borrowings which may not be possible if the member's pay-slips is committed. These should target members who have income outside and or, additional to employment income which they may like to use to increase their savings or service loans. Such additional sources of income may also be considered in assessing a member's credit worthiness. SACCOs may also consider discounting member's cheques at a commission in a bid to deliver more value to their customers.

Longer repayment period for loans will ease the loan burden on members taking substantial development loans. The current practice is allowing members the prescribed repayment period of 36 months or in exceptional cases 48 months. Giving customers flexibility in the repayment period of loans will help borrowers adapt to changing financial circumstances.

Application of ICT by the SACCOs may help cut down on cost and offer fast and efficient services to members like providing internet and web advertising services. Incentive to staff can also be explored. Incentive to the staff can help boost their morale and thus performance. Such incentives

can take the form of car loans, furniture, loans among others. Incentives to outstanding borrowers can take the form of prizes and special recognition. This can boost more savings and borrowing. Another trend that can be encouraged through use of incentives is timely repayment. Timely loan repayment can lead to improved cash flow and therefore accelerate the circulation of funds among the members. In order to catch up with the other key players, the SACCO managers need to be trained and informed about the market.

5.4 Limitations of the Study

The major limitation of this study was the high non-response rate as out ⁴⁴ 45 SACCOs based in Eldoret, only ³⁰ 15 responded. The study may not therefore be generalized to the population. There was also reluctance of some respondents in giving out information, especially relating to the strategic responses due to suspicion on how the information would be used.

The timing of the study may also have been a limitation, given that the political environment in the target region is currently turbulent. The study was done at a time when ethnic identities received undue emphasis, the populations settlement patterns had been disorganized which effectively grounded some Saccos while those that survived are grappling with many issues.

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Nairobi, Kenya

DATE..... 23/4/08

TO WHOM IT MAY CONCERN

The bearer of this letter Sarah N. Mwangi

Registration No: DG/1P/8743/01

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

Appendix 2: Questionnaire

RESPONSES OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES (SACCOS) TO THE CHALLENGES OF COMPETITION IN THE KENYAN FINANCIAL SECTOR: THE CASE OF SACCOS IN ELDORET

Part A: General Information

1. How long have your SACCO been in operation? _____

2. Please indicate the nature of ownership of your SACCO.

Employees Farmers Others

(please specify) _____

3. How many branches does your SACCO have?

4. What is the distribution of your branches?

Number of branches in Eldoret _____

Number of branches outside Eldoret _____

5. What was loan portfolio by the end of 2006?

Kshs. _____

6. What was the volume for your deposits by the end of 2006? Please indicate whether they are voluntary savings or forced savings.

Kshs. _____

7. What services does your SACCO offer?

Business Loans

Agricultural loans

Personal/consumer loans

- Savings
- Insurance
- Money transfer
- Leasing
- Training (business and technical)
- Other (please specify) _____

8. What do your customers consider the interest rate of your services to be (please tick as appropriate)

- I) Higher than competition
- II) Similar to competition
- III) Lower than competition

9. Please give reasons why your interest rate is as indicated above

- i) _____
- ii) _____
- iii) _____

10. Name your 5 main business competitors

- i) _____
- ii) _____
- iii) _____
- iv) _____
- v) _____

11. Position held by respondent in the Company

Part B: Challenges of Competition

1 To what extent do you face the following challenges of competition in the cooperative sector.

Indicate on a 5 point scale where 5= very great extent and 1= no challenge at all. Circle accordingly.

Threat of New Entrants

1 The resource capability of competitors	1	2	3	4	5
2 Level of diversification	1	2	3	4	5
3 Proprietary product differences	1	2	3	4	5
4 Favorable locations	1	2	3	4	5
5 Learning or experience curve	1	2	3	4	5
6 Marketing abilities	1	2	3	4	5
7 Market research and product design	1	2	3	4	5
8 Expected retaliation	1	2	3	4	5

Substitute Products

9 Hire purchase	1	2	3	4	5
10 Commercial bank's loans.	1	2	3	4	5
11 Fund raisings	1	2	3	4	5
12 Fund transfers	1	2	3	4	5
13 Personal lending	1	2	3	4	5
14 Commercial papers	1	2	3	4	5

Power of SACCOs as buyers

15 Limited knowledge of the market	1	2	3	4	5
16 Ownership structure	1	2	3	4	5

17	Risk of withdrawal by members	1	2	3	4	5
18	Threat of backward integration by customers	1	2	3	4	5
19	SACCO's choice of client groups – client selection to minimize their bargaining power	1	2	3	4	5

Supplier power

20	Concentration of potential clients in the population	1	2	3	4	5
21	Number of SACCOs competing for clients	1	2	3	4	5
22	Threat of forward integration	1	2	3	4	5

Industry competition

23	Low industry growth	1	2	3	4	5
24	Lack of brand identity and product differentiation	1	2	3	4	5
25	Diversity of competitors	1	2	3	4	5

Other challenges. _____

2 Following changes in the market, to what extent has your organization been affected in the following parameters?

	5	4	3	2	1
	Very great Extent	great extent	moderate extent	little extent	No extent
Loss of customers	[]	[]	[]	[]	[]
Loss of market share	[]	[]	[]	[]	[]

III	Decline in profits	[]	[]	[]	[]	[]
IV	Staff turnover	[]	[]	[]	[]	[]
V	Ability and skills of Employees	[]	[]	[]	[]	[]
VI	Lack of shared vision and mission between management and owners.	[]	[]	[]	[]	[]

Part C: Responses to Challenges in the Competitive Environment

Please indicate to what extent your society has engaged in the following activities to cope with challenges of competition.

Indicate by circling as appropriate on the scale of 1-5
Where 1 = To a great extent and 5 = No extent at all

Products and services

1. Offering products and services not offered by competitors					
2. Offering high quality services	1	2	3	4	5
3. Offering better terms services	1	2	3	4	5
4. Offering higher loan sizes	1	2	3	4	5
5. Providing a longer repayment period for loans'					
6. Giving customers flexibility in the yes of the loan	1	2	3	4	5
7. Offering refinancing arrangements when required by borrowers	1	2	3	4	5
8. Offering lower minimum deposit for savings	1	2	3	4	5
9. Higher saving withdrawal frequencies	1	2	3	4	5
10. Charging lower interest rate loans	1	2	3	4	5

Approaches for delivering service

- | | | | | | |
|--|---|---|---|---|---|
| 11. Keeping transaction costs lower than that of competitors | 1 | 2 | 3 | 4 | 5 |
| 12. Minimizing size of loans | 1 | 2 | 3 | 4 | 5 |

Transaction processing

- | | | | | | |
|--|---|---|---|---|---|
| 13. Easing the process of becoming a customer | 1 | 2 | 3 | 4 | 5 |
| 14. Making the loan application process quick and simple | 1 | 2 | 3 | 4 | 5 |
| 15. Making repeat loans processing quick and convenient | 1 | 2 | 3 | 4 | 5 |

Customer Care and Services

- | | | | | | |
|---|---|---|---|---|---|
| 16. Have a good system of receiving feedback from clients | 1 | 2 | 3 | 4 | 5 |
| 17. Serve specific type of customers only | 1 | 2 | 3 | 4 | 5 |
| 18. Serve all customers | 1 | 2 | 3 | 4 | 5 |

Adequate information systems

- | | | | | | |
|---|---|---|---|---|---|
| 19. The use of an information system that makes customers service quick and reliable | 1 | 2 | 3 | 4 | 5 |
| 20. Investment in an information system that supports an effective staff performance monitoring | 1 | 2 | 3 | 4 | 5 |

Efficient cash management systems

- | | | | | | |
|--|---|---|---|---|---|
| 21. Ensuring loans are available by clients when needed | 1 | 2 | 3 | 4 | 5 |
| 22. Ensuring that there is sufficient funds at all times to make payments to holders of saving accounts (voluntary and forced) | 1 | 2 | 3 | 4 | 5 |

Staff

- | | | | | | |
|--|---|---|---|---|---|
| 23. Employing competent staff | 1 | 2 | 3 | 4 | 5 |
| 24. Training staff in customer service | 1 | 2 | 3 | 4 | 5 |
| 25. Giving staff incentives e.g. bonus | 1 | 2 | 3 | 4 | 5 |

Marketing

6. Gifts to outstanding borrowers	1	2	3	4	5
7. Offering interest rebates and other incentives for timely payments	1	2	3	4	5
8. Allowing repayments by cheque, direct deposit	1	2	3	4	5
9. Use of public relations, sales promotions or advertising	1	2	3	4	5
10. Differentiating from competitors in terms of names of services, appearance of premises, use of brochures and other marketing tools different from those used by competitors.	1	2	3	4	5

Other action plans

Appendix 3: Saccos In Eldoret

NAME OF SOCIETY	CS/NO
1. Ainabkoi Fcs Ltd	0927
2. Progressive Fcs Ltd	1078
3. Highland Paper Mill SACCO	1449
4. Eldoret M. SACCO Ltd	2099
5. Wareng T. SACCO LTD	2624
6. Agogo SACCO LTD	2731
7. Starch SACCO	2777
8. Rivatese SACCO LTD	2874
9. PLYWOOD SACCO LTD	2926
10. Ken-Knit SACCO LTD	2957
11. RIVABOT SACCO Soc	3038
12. Warecco SACCO LTD	3048
13. Eldoret Golf C. SACCO LTD	3569
14. Sirikwa Hotel SZCCO LTD	3790
15. Msingi SACCO Soc. LTD	3814
16. Bonde la Kerio SACCO	3949
17. Elbaico SACCO Soc. LTD	4069
18. Moi University SACCO LTD	4319
19. Kurur W. C. Fcs LTD	4595
20. Cheramba Fcs LTD	4731
21. U.G. Memorial H. SACCO	4937
22. Arnesens SACCO LTD	4985
23. C.P.K. Eldoret SACCO	5083
24. Eldopoly SACCO LTD	5173
25. Testmony SACCO Soc, LTD	5262
26. Nufil SACCO LTD	5481
27. Ainabkoi Fco ltd	5749
28. Eldoret N. Home	5781
29. Kapenei Fcs LTD	5845

30. Ziwa M.C. Soc LTD	6931
31. Pyrapratic SACCO	7291
32. Chuma SACCO LTD	7551
33. Kaplelach Transport	7703
34. Progressive R. SACCO LTD	7726
35. Bonde la Kerio Invest	8333
36. Alico Eldoret SACCO	8349
37. R.C.F.A. Staff SACCOLTD	8718
38. Eltra SACCO Soc. LTD	8762
39. Wareng Nekoi M. SACCO	9116
40. Catholic Diocese EL SACCO	9247
41. Eldo Private Nurses SACCO	9600
42. Ejukaso SACCO LTD	9616
43. Kimulu Rural SACCO	9769
44. Referral SACCO Soc. LTD	9829