COMPETITIVE STRATEGIES ADOPTED BY MWALIMU SACCO AS A RESULT OF EXTERNAL ENVIRONMENTAL CHANGES SINCE 1997

BY:

MARY MBAI

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DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University or institute of learning.

Signed: ………………………………………………… Date: ………………..

MBAI MARY

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This Research project has been submitted for examination with my approval as a University Supervisor.

Signed………………………………………………….. Date: ………………………..

MR. JEREMIAH KAGWE

Department of Business Administration

School of Business

University of Nairobi

DEDICATION

To my sons Richard Mbithi and Robert Mbai

My delight in life

To my husband and friend

Charles Mbithi

To My parents

Louisa Nzisa and Dishon Mbai

Whose prayers, love and care made me what I am today.

To the Lord God Almighty in whom I have my being

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ABSTRACT

The environment in which organizations operate changes constantly. Organizations are expected to deal with competitive forces such as threats of new entrants, substitute products, bargaining power of suppliers and bargaining power of customers in order to remain in the market. In Kenya, SACCOs operate in a competitive environment since liberalization of the economy in 1997. Mwalimu SACCO was chosen as a case study.

This study compared different strategies adopted by the SACCO since liberalization of the country's economy. The cooperative movement in Kenya faced numerous operational challenges brought about by the negative effects of a dynamic economic and business environment. The literature available indicated that there is no study aimed at addressing the competitive strategies adopted by SACCOs in Kenya as a response to the emerging changes hence the knowledge gap. It was found necessary to investigate the strategies adopted for survival by the SACCOs because the cooperative sector is of great significance to the economic development of this country as it employs thousands of Kenyans and also provides credit facilities to their members.

Factors that are cited in literature as influencing competitiveness of an organization were summarized and what come up were strategies that could be adopted as firms compete in an industry. A total of nineteen management team members participated in the study. The nineteen respondents were selected using random and purposive sampling.

Analysis of data was done using frequencies and percentages while findings were presented in form of tables and figures. Research findings revealed different adoption rates of different competitive strategies which included product differentiation, cost strategy and focus strategy.

The recommendations made on ways of improving the SACCO's competitiveness included putting in place a broad research policy by the ministry of cooperative development and employing enough staff, then distributing them according to the number of cooperative societies throughout the nation. Where there are no primary cooperative societies currently it is suggested that the government, through the MOCD&M should either revive or create new primary cooperative societies.

Suggestions made for further studies were for future studies to attempt linking the performance of cooperative societies with the strategies they adopted.

ACRONYMS AND ABREVIATIONS

CEO	Chief Executive Officer
CIC	Cooperative Insurance Company
DGM (F)	Deputy General Manager-Finance
ICT	Information Communication Technology
KNFC	Kenya National Federation of Cooperatives
KUSCCO	Kenya Union of Savings and Credit Cooperative Societies
MOCD & M	Ministry of Cooperative Development and Marketing
SACCO	Saving and Credit Cooperative Society
TSC	Teachers Service Commission

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategy and competition

Porter (1985), argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy which he defines as the development of an overall cost leadership, differentiation or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy, Porter (1980). Today Porter argues that the strategy is about selecting the set of activities, in which an organization will excel to create a sustainable difference in the market place.

Day and Wensley, (1988), argue that competitive methods consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems or marketing skills not possessed by a competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation. Examples include operating scale, location, comprehensiveness of a distribution system, brand equity, manufacturing or processing assets. They conclude that establishing a generic strategy based on positional advantage in the marketplace will provide a firm with superior performance.

Bharadwaj, (1993), suggest that a competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the achievement of above average industry performance.

Some contend that firms can follow both cost leadership and differentiation strategies simultaneously. However the issue remains unresolved. Miller (1992), advocates for the pursuit of a pure generic strategy, that is, a generic strategy that does not mix emphasis on both cost and differentiation competitive methods as compared to a hybrid strategy. In a hybrid strategy firms place similar emphasis on both differentiation and cost leadership competitive methods simultaneously and this is beneficial in markets where consumers exhibit strong preferences for either quality or price. He states that pure cost leadership is most effective when customers are sensitive to price and when there is a fighting chance to maintain a cost advantage because of economies of scale, proprietary, technology or unique access to cheap materials or channels of distribution, Miller (1992).

It should be noted that Porter (1980), indicates that firms cannot focus solely on a cost leadership or differentiation strategy to the exclusion of other strategies. He contends that cost leaders must devote some resources to differentiation activity and those that pursue a differentiation strategy cannot do so to the detriment of their cost structure. Prior research has identified hybrid strategies which are those with simultaneous emphasis on both cost and differentiation competitive methods. A stuck-in-the-middle position is difficult to identify and prior research may have incorrectly classified hybrid generic strategies and stuck-in-the-middle positions as equivalent. Also, these classifications may have been inconsistently interpreted and applied from study to study, Wagner and Digman, (1997).

Research on generic strategies has identified a link between an organization's attention to one of the Porter's, generic strategy types and performance. Some studies have found support for a single-strategy performance benefit, Hambrick (1983), Dess and Davis, (1984) and Calingo, (1989). Other researches, have shown that it is possible to pursue a strategy that includes both cost and differentiation competitive methods, Miller and Friesen, (1986) Kim and Lim, (1988), Robinson and Pearce, (1988), Roberts, (1990), Bush and Sinclair, (1992), Miller and Dess, (1993), Wagner and Digman, (1997), although a performance benefit is not always evident.

The environment faced by an organization can be categorized by the external environment which consist everything outside an organization that might affect it and the internal environment consisting of conditions and forces within the organization. No single set of measures of the organizational environment is widely accepted making it difficult to build a comprehensive literature on the impact of the environment on the firm and how the organization can utilize competitive strategies to maintain high performance.

For any industry, Young (1999) concludes that understanding market structure is a key determinant to the successful implementation of a differentiation or cost leadership strategy. Devlin (1995), suggests that distribution systems provide one way for organizations to differentiate their services while, Farrance (1993), identified distribution, technology, segmentation, pricing, product development, branding, service quality, and relationship marketing as areas where these institutions currently pursue differentiation strategies. However, Devlin and Ennew (1997), caution that a differentiation strategy may be difficult to implement in a service industry because services are easily copied and fruitful options for achieving differentiation may be limited due to the simplicity and duplicability of the service unless the target market is highly sophisticated and knowledgeable.

In a meta analysis of strategy research, Campbell-Hunt (2000), found that Porter's (1980), generic strategy classifications are capable of discriminating between competitive strategy designs in empirical research and called for repetition of prior studies in different industries using identical competitive methods on which a principal component solution can be employed.

It is notably clear that the environment in which cooperative societies especially SACCOs are operating is very turbulent. Technological, political, legal and socio-cultural factors are continuously changing. Competitive forces, threats of new entrants, substitute products and bargaining power of suppliers and clients cannot be underestimated. Furthermore, the government support is not likely to develop strategies for self sustenance in dynamic business environment because of the dependency syndrome. However, most of the SACCO's competitive strategies even in the deregulated sector are still questioned. This brings in the dilemma as to the effectiveness of competitive strategies in an ever changing environment.

1.1.2. Cooperative Societies in Kenya

A cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise. This means that cooperatives are economic organizations whose activities are devoted primarily to the promotion of economic and social welfare of members by providing services which enable them to realize and appreciate the objectives, benefits and values of their cooperative, (www.ica.coop/coop/principles.html).

The Kenyan cooperative movement is comprised of Agricultural, savings and credit and non agricultural cooperative societies. Economic survey (2006) indicates that in 2005 the coffee, dairy, pyrethrum and sugarcane sub-sector witnessed the highest increase in the number of societies in the agricultural sector. Societies in the coffee sub-sector increased by 5.0 per cent from 498 in 2004 to 523 in 2005, while the dairy, pyrethrum and sugar-cane sub sectors expanded by 2.9, 2.8 and 2.0 percent, respectively over the same period.

Consequently, the number of agricultural societies increased by 2.1 per cent from 4,215 in 2004 compared to 4,304 in 2005. Non agricultural societies other than SACCOs are made up of multi-purpose, fisheries and handcraft cooperative societies. All these types of cooperatives play an important role in the mobilization of domestic savings, agricultural production and marketing and employment creation in the country, National Development plan, (1997-2001). Given the high potential of the cooperative sub-sector in resource mobilization the cooperative societies Act was amended in 1997 to allow savings and credit cooperative societies more freedom to mobilize savings and invest prudently without jeopardizing the interests of share contributions, National Development plan, (1997-2001).

Table 1: Number of cooperative societies and unions

	1991 **1**	**1995** **1**	**2000** **2**	**2005** **2**
All Agricultural Cooperatives	2416	3080	4349	4304
Savings and Credit Cooperative Societies	2339	2810	3627	4678
Other Non-Agricultural societies	763	896	1378	1885
Unions	76	81	89	99
Total	**5594**	**6867**	**9443**	**10966**

Sources 1. Economic Survey 2005 page 156

2. Economic Survey 2006 page 153

1.1.3 Mwalimu SACCO Background

The SACCO`s operational manual argues that the SACCO is one of the largest, best managed and very successful in the country today and that growth and success of the SACCO is mainly attributed to excellent and stable management over the years, sound financial and management policies plus adoption of a clear mission and vision.

Mwalimu SACCO was registered on 24th Oct. 1974 to promote systematic savings and credit and to strengthen a common bond among its members.

The SACCO's membership grew very fast until 1997

Period	Number of members
24th Oct 1974	11
31st Dec 1997	41,808
31st Dec 2006	45,401

Since its registration as a cooperative society under the cooperative societies Act (Cap 490 repealed) the SACCO has been providing its services to its members who are mainly drawn from the Teachers Service Commission payroll and who principally teach in post-primary institutions, Mwalimu SACCO strategic plan (2003-2008).

The SACCO operates on a delegate system which essentially entails a decentralization of authority to branches. The delegates are drawn from various branches within the country. The society has around 40 branches.

The day to day operations of Mwalimu SACCO are governed by the cooperative societies Act 1997 (No. 12 of 1997), the cooperative societies rules in force and the 2006 by-laws which defines and amplifies the society's legal status.

Mwalimu SACCO developed its first strategic plan in October 1998. The strategic plan was revised and a new one covering the period 2003-2008 was developed. Review of the SACCO's strategic plan is done yearly by the members of Board and the senior managers. The strategic plan was designed to inject efficiency and effectiveness. Among the achievements of the plan was the birth of a customer service charter which set the standards of service in the SACCO.

Due to the size of Mwalimu SACCO and its high potential in resource mobilization it has been chosen so that the study can be applicable to most SACCOs which operate in the same environment.

1.2 Statement of the Problem

Managers who make long-range plans generally assume that better times lay ahead. Future plans are merely extensions of where the organization had been in the past. But a number of environmental shocks undermine this approach. Such shocks include rapid technological developments, the maturing or stagnation of certain markets and increased international competition. These changes force managers to develop a systematic means of analyzing the environment, assessing their organization's strengths and weaknesses, and identifying opportunities for competitive advantage, Pearce, (1990).

When selecting the competitive strategy to be used by the organization, management usually undergo through an analysis. First, they analyse the competitive environment which includes competitors' strategic moves and market signals. Secondly an analysis of the industry is done by looking at discreet market segments, changes in industry structure and the strategic group to compete in. Finally, a generic competitive strategy based on identified target market segments and strategic options is selected.

Nevertheless, organizations in Kenya whether profit or not for profit have had to change their structure, design, culture and general management orientation in order to remain competitive in the wake of the government implementation of policies leading to economic liberalization. Several studies have been carried out in Kenya before addressing the aspects of Kenyan firms and economic liberalization. Related studies have also been carried out investigating firms' responses to the changing environment in Kenya. Such studies were carried out by Oyoo, (2000), on Financial Performance of SACCOs, Owiye, (1999) on Sugar Industry, Yatich (2001) on Telkom Kenya and Kombo, (1997) on motor industry franchise holders.

Since 1997, the Co-operative Movement in Kenya has faced numerous operational challenges due to sudden Government withdrawal from its previous extensive support and also due to the negative effects of a dynamic economic and business environment in the country. The most critical challenges facing Co-operatives in the rural sector are among others, lack of standardized accounting and prudential standards, lack of concessionary credit facilities previously given by Government with donor contributions, high capital cost brought about by liberalization of financial sector, high farm input cost as a result of liberalization of International trade and also liberalization of market players and decontrol of marketing of local commodities such as agricultural produce. As a result of these changes high competition has been experienced.

The literature available so far indicate that there has since been no study aimed at addressing the competitive strategies adopted by SACCOs in Kenya since the process of economic liberalization was initiated hence the knowledge gap. The sector remains of great significance to the economic development of this country as it employs thousands of Kenyans who work in various SACCOs.

It is in the light of the above that there is need to establish the competitive strategies adopted by Mwalimu SACCO in the current economic environment in Kenya.

This study therefore tries to address the following question:

- What are the competitive strategies adopted by Mwalimu SACCO as a result of the external environmental changes since 1997?

1.3 Research Objective

The objective of the study was to establish the competitive strategies adopted by Mwalimu SACCO since 1997.

1.4 Scope of the Study

The study sought to establish competitive strategies adopted by Mwalimu SACCO as a result of the external environmental changes since 1997.

1.5 Importance of the Study

This study would be of value to the Management teams of SACCOs in Kenya as a reference point for competitive strategy being put in place both in the present and in the future. The study added knowledge into how SACCOs adopt and implement different competitive strategies. The findings of this study would be of significant importance to the co-operative industry which is directly affected by the dynamic business environment and scholars who would use it for further research in the same area or related field or for teaching in universities and other institutions of learning. The study would also be important to financial institutions which operate in the same environments as SACCOs. The government and corporate policy makers who might be interested to know the impact of a dynamic environment in respect to the competitiveness on SACCOs in Kenya gained from the study. For the management teams of SACCOs whose duty was policy formulation to address the problems brought about by a changing environment, the study would be of great help. KUSCCO, KNFC, CIC and Cooperative bank who rely on cooperative societies for business would find this study useful as they formulate their strategic plans.

CHAPTER TWO: LITERATURE REVIEW

2.1 Strategy

As the external environment changes, organizations find themselves in unfamiliar environment and have to respond by integrating change and internalizing the ability to adapt to the new environment for survival and growth. According to Schendel and Hofer, (1979), organizations respond to turbulence in the environment by formulating new strategies. These provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Pearce and Robinson, (1991) argue that organizations have to respond to the turbulence by crafting new strategies that they define as a large-scale future–oriented plans for interacting with the environment.

In most corporations there are several levels of strategy. Strategic management is the highest in the sense that it is the broadest, applying to all parts of the firm. It gives direction to corporate values, corporate culture, corporate goals, and corporate missions. Under this broad corporate strategy there are often functional or business unit strategies. Functional strategies include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, information and technology management strategies. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives hence, to some extent their strategies are derived from broader corporate strategies. Many companies feel that a functional organizational structure is not an efficient way to organize activities so they have reengineered according to processes or strategic business units (called SBUs). A strategic business unit is a semi-autonomous unit within an organization. It is usually responsible for its own budgeting, new product decisions, hiring decisions and price setting. An SBU is treated as an internal profit centre by corporate headquarters. Each SBU is responsible for developing its business strategies, strategies that must be in tune with broader corporate strategies. The lowest level of strategy is operational strategy. It is very narrow in focus and deals with day-to-day operational activities such as scheduling criteria. It must operate within a budget but is not at liberty to adjust or create that budget. Operational level strategy was encouraged by Peter Drucker in his theory of management by objectives. Operational level strategies are informed by business level strategies which in turn are informed by corporate level strategies. Business strategy which refers to the aggregated operational strategies of single business firm or that of an SBU in a diversified corporation refers to the way in which a firm competes in its chosen arenas, Drucker, (1954).

Corporate strategy then refers to the operating strategy of the diversified firm. Such corporate strategy answers the questions of "in which businesses should we compete?" and "how does being in one business add to the competitive advantage of another portfolio firm as well as the competitive advantage of the corporation as a whole?" Since the turn of the millennium, there has been a tendency in some firms to revert to a simpler strategic structure. This is being driven by information technology. It is felt that knowledge management systems should be used to share information and create common goals. Strategic divisions are thought to hamper this process. Most recently, this notion of strategy has been captured under the rubric of dynamic strategy popularized by the strategic management textbook authored by Carpenter and Sanders. This work builds on that of Brown and Eisenhart as well as Christensen and portrays firm strategy both business and corporate as necessarily embracing ongoing strategic change and the seamless integration of strategy formulation and implementation. Such change and implementation are usually built into the strategy through the staging and pacing facets, David, (1989).

The usefulness of strategy was equally entrenched further by Aosa, (1998), in his argument that strategy is of value to managers when dealing with problems that are potential to their companies. Competitive strategies are therefore a result of strategic management. However, Igor Ansoff, (1987), warns that strategy is an elusive and somewhat abstract concept. They further argue that strategic management has got no agreed definition because of its continued development. It is therefore a match between how organizations achieve its objectives within its environment.

Mintzberg, (1973) defined strategy to be a play, plan, pattern, position and perspective. Pearce and Robinson, (1997), concludes the foregoing definition of strategy to be a reflection of company's awareness of how to compete, against whom, when, where, and for what. The essence of strategy is highlighted by Munscriff, (1999), that strategy appears to be a learning action, behavioural, holistic and continuous process.

Pearce and Robinson, (1997) and Porter, (1998), all argued that strategy is about gaining a competitive advantage. Ansoff and McDonnel, (1990), concluded that strategy should be taken seriously as a managerial tool not only for the firm but also for a broad spectrum of social organizations.

In the face of turbulence and complex environmental conditions brought about by such factors as liberalization, effective strategies and appropriate strategic management process is vital for every organization. The principal benefit of strategic management is to help organizations formulate better strategies through the use of more systematic, logic and rational approach to strategic choice, David, (2001).

Probably the most influential strategist of the decade was Michael Porter. He introduced many new concepts including five forces analysis, generic strategies, the value chain, strategic groups and clusters. In five forces analysis he identified the forces that shape a firm's strategic environment. It is like a Strengths and Weaknesses, Opportunities and Threats (SWOT) analysis with structure and purpose. It shows how a firm can use these forces to obtain a sustainable competitive advantage. Porter modified Chandler's dictum about structure following strategy by introducing a second level of structure. Organizational structure follows strategy which in turn follows industry structure. Porter's generic strategies detail the interaction between cost minimization strategies, product differentiation strategies and market focus strategies. Although he did not introduce these terms, he showed the importance of choosing one of them rather than trying to position your company between them. He also challenged managers to see their industry in terms of a value chain. A firm will be successful only to the extent that it contributes to the industry's value chain. This forced management to look at its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer.

Kay, (1993) took the idea of the value chain to a financial level claiming that adding value is the central purpose of business activity where adding value is defined as the difference between the market value of outputs and the cost of inputs including capital, all divided by the firm's net output. Borrowing from Gary Hamel and Michael Porter, Kay claims that the role of strategic management is to identify your core competencies and then assemble a collection of assets that will increase value added and provide a competitive advantage. He claims that there are three types of capabilities that can do this thus innovation, reputation, and organizational structure.

The basic premise is that a strategy should not be judged by internal company factors but by the way customers see it relative to the competition. Crafting and implementing a strategy involves creating a position in the mind of the collective consumer. Several techniques were applied to positioning theory. Some were newly invented but most were borrowed from other disciplines. Perceptual mapping for example creates visual displays of the relationships between positions. Multidimensional scaling, discriminant analysis, factor analysis and conjoint analysis are mathematical techniques used to determine the most relevant characteristics upon which positions should be based. Preference regression can be used to determine vectors of ideal positions and cluster analysis can identify clusters of positions.

Others felt that internal company resources were the key. Barney, (1991), saw strategy as assembling the optimum mix of resources which include human, technology and suppliers and then configure them in unique and sustainable ways.

Michael Hammer and James Champy felt that these resources needed to be restructured, Hammer (1993). This process which they labelled reengineering, involved organizing a firm's assets around whole processes rather than tasks. In this way a team of people saw a project through from inception to completion. This avoided functional silos where isolated departments seldom talked to each other. It also eliminated waste due to functional overlap and interdepartmental communications.

2.2 Competitive Strategies

A competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers to withstand competitive pressure and improve its market position, Thompson & Strickland, (1993). It concerns what a firm is doing in order to gain a sustainable competitive advantage. They are of the opinion that a company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces.

Prahalad and Hamel, (1990), define a core competence as an area of specialized expertise which is as a result of harmonizing complex streams of technology and work activity. The core competence, they add, has three unique characteristics. First it increases perceived customer benefits. Secondly, it is hard for competitors to imitate and finally it provides access to a wide variety of markets.

According to Thompson & Strickland, (1993) a competitive advantage has a three stage life cycle which begins with the build up period where by strategic moves are successful in producing competitive advantage. Secondly, there is the benefit period. In this stage fruits of competitive advantage are enjoyed and the firm earns profits and recoups on investments made to create the advantages. Finally there is erosion period where the competitive advantage held by the firm is eroded due to imitation, duplication, new technology and attacks by rivals.

To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will perceive as superior value. This entails either a good quality product at a low price or a better quality product that is worth paying more for.

Porter, (1990), has hypothesized why some nations were more competitive than others. As well as being able to successfully manoeuvre through the environment he identified that the foundation of success lay in the diamond of home advantage. In Porter's analysis, industry competitors can be threatened by new or potential entrants and substitutes. In systems, barriers to new entrants can exist as well as barriers to international competitiveness. These barriers can be related to technical characteristics of commodities, perishability, bulkiness, production characteristics, economies of scale, laws, rules and standards. In industrial products, many factors go into making up the competitive advantage of a supplier. These factors are primarily related to size and patterns of demand which is shaped by incomes, tastes and technological developments, sector policies, rate of inflation, investment policies, natural resources, human capital endowments, physical, social infrastructure and micro-marketing relationship.

Competitive strategy concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter, (1990), outlines three approaches to competitive strategy which are, low cost leadership strategy, whereby a firm strives to be the overall low cost producer. Then there is differentiation strategy where a firm seeks to differentiate its product offering from that of its rivals. Finally there is the focus strategy in which a firm focuses on a narrow portion of the market.

2.3 Factors determining the choice of competitive strategies

Whilst it is essential for all managers to have some insight into how their organization is affected by the environment, it is also desirable for them to consider how some of the environmental forces might be influenced and managed to gain benefits for the organization. Organizations should examine their environment for opportunities and threats in order to establish where they can gain competitive advantage and where their resources might most usefully be concentrated. Thinking strategically requires an awareness of alternative strategic purposes and objectives and the ability to recognize critical different environments. In addition it requires the ability to diagnose an organization in terms of various critical characteristics and to be able to shape those characteristics so that the organization is best fitted to its environment in order to achieve its strategic purposes and objectives. A complex and dynamic modern environment is inevitably difficult to forecast. The inherent uncertainties can make it highly unpredictable and potentially chaotic. Individual managers would develop their environmental and strategic awareness through experience and perception and by thinking about their observations and experiences. It is particularly important to assess the significance of what happens and what can be observed to be happening. However, in considering future strategic changes there will be an additional need to suppliers, customers, competitors, demand, technology, government legislation among other factors. Managers who are encouraged to think about future changes, to ask questions and to query assumptions will increase their insight and awareness and this should help decision making, Thompson, (1997).

Effective strategic management involves more than just a few easy steps. It requires managers to think strategically, to develop the ability to see things in motion, and to make sense out of a cloudy and uncertain future by seeing the interdependency of key factors. This ability requires more than a passing awareness of significant social, political, legal, economic and technological trends. Managers who think strategically are able to envision their organizations in the context of world trends and events and to spot important interdependencies. They focus on how their organization should act and react to emerging opportunities and barriers. For any organization, certain environmental influences will constitute powerful forces which affect decision making significantly. For some manufacturing and service businesses the most powerful force will be customers while for others it may be competition, Thompson, (1997).

According to Ansoff, the extent to which the environment is changeable or turbulent depends on six factors which are, changeability of the market environment, speed of change, intensity of competition, fertility of technology, discrimination by customers and pressures from governments and influence groups. He suggests that the more turbulent the environment is, the more aggressive the firm must be in terms of competitive strategies and entrepreneurialism or change orientation if it is to succeed, Thompson, (1997).

Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy. Combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard but not impossible to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation, Porter, (1980).

2.4 Types of Competitive Strategies

2.4.1 Low Cost Leadership Strategy

To be successful this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour or some other important input. Without one or more of these advantages the strategy can easily be mimicked by competitors. Successful implementation also benefits from process reengineering skills, products designed for ease of manufacture, sustained access to inexpensive capital, close supervision of labour, tight cost control and incentives based on quantitative targets.

2.4.2 Differentiation Strategy

Differentiation involves creating a product that is perceived as unique. The unique features or benefits should provide superior value for the customer if this strategy is to be successful. Because customers see the product as unrivalled and unequalled, the price elasticity of demand tends to be reduced and customers tend to be more brand loyal. This can provide considerable insulation from competition. However there are usually additional costs associated with the differentiating product features and this could require a premium pricing strategy. To maintain this strategy the firm should have strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, incentives based on subjective measures and be able to communicate the importance of the differentiating product characteristics. A firm should also stress continuous improvement and innovation and attract highly skilled, creative people.

2.4.3 Focus Strategy

In this strategy the firm concentrates on selected few target markets. This strategy is also called segmentation or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets you can better meet the needs of that target market. The firm typically looks at gaining a competitive advantage through effectiveness rather than efficiency. It is most suitable for relatively small firms but can be used by any organization. As a focus strategy it may be used to select targets that are less vulnerable to substitutes and where competition is weakest to earn above-average return on investments.

2.5 The nature of Organizational Environment

Today's organizations have to deal with dynamic and uncertain environments. In order to be successful, organizations must be strategically aware of the environmental status. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, build on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers. The environment faced by an organization can be categorized into the external and internal environment.

2.5.1 The External Environment

The external environment is everything outside an organization that might affect it. It is the non-specific dimensions and forces in its surroundings that might affect its activities. The general environment consists of the economic dimension, inflation, interest rates, unemployment, and demand. The technological dimension refers to the methods available for converting resources into products or services while the socio-cultural dimension refers to morals, customs, values, and demographic characteristics of the society in which the organization functions. Then there is the political-legal dimension which refers to government regulation of business and the relationship between business and government. The international dimension refers to the extent to which an organization is involved in or affected by business in other countries and finally the task environment consists of specific organizations or groups that are likely to influence an organization. The actors in the task environment include the competitors, customers, suppliers, interest groups, regulators and regulatory agencies.

A number of models that can help managers in analysing the external environment exist. Such models provide a framework to identify external opportunities and threats. Opportunities arise when an organization can take advantage of conditions in its external environment to formulate and implement strategies that enable it to improve performance. Threats arise when conditions in the external environment endanger the integrity of the organization's activities.

2.5.2. The Internal Environment

The internal environment consists of conditions and forces within the organization. The main players in the internal environment include the board of directors, employees and culture of an organization.

Models providing a framework to identify internal environment’s strengths and weaknesses are used by management. Strengths arise when an organization can take advantage of conditions in its internal environment to formulate and implement strategies that enable it to improve performance. Weaknesses arise when conditions in the internal environment endanger the integrity of the organization's activities.

In order to manage corporate culture, managers must first understand the current culture. If the culture is one that is in the best interest of the firm, managers can reward behaviour that is consistent with the existing culture in order to enforce it. If the culture needs to be changed, then managers must know what it is they want the culture to be and then bring in outside people, adopt slogans or tell stories among other things that will help to change the culture into the type the management wants.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design

The study was a case study on competitive strategies adopted by Mwalimu SACCO since 1997.

A case study according to Kothari, (1990), is a powerful form of qualitative analysis. Young (1960), also pointed out the same to be a comprehensive study of a social unit. The unit of study could be an institution, family, district, community, or a person. Kandie, (2001), argues that a case study is a form of qualitative analysis where studies are done on institutions and from the study, data generalization and inferences are drawn.

In general, a case study is a qualitative study that has been narrowed down to a specific unit but comprehensive enough to give representative information for similar units operating in the same environment. The use of case study in research is of particular importance taking in to account the advantages that come along with it. It is the easiest research free from material bias and enables one to intensively study a particular unit. This may not be possible with other methods of study. Nevertheless, scientific generalizations with respect to similar units operating in the same environment but in different geographical regions may be done with minimum complexity.

3.2. Data Collection

Data was collected through a questionnaire, a copy of which is attached at appendix II. In an effort to establish the competitive strategies adopted by the SACCO, the questionnaire was addressed to twenty respondents who included two deputy CEOs, ICT, personnel, customer care and loans managers. A copy of the questionnaire was dropped and picked later from the respondents' offices.

3.3. Data Analysis

The data was analysed using frequencies, percentages, bar charts and pie charts.

3.4 Structure of the Report

The report has five chapters. The first chapter covers introduction of strategy and competition, cooperative societies in Kenya, the background of Mwalimu SACCO, statement of the problem, research objectives, importance and scope of the study. The second chapter covers literature review under which various competitive strategies have been discussed. Strategy levels and their usefulness have been explained. Competitive strategies as the moves and approaches that a firm uses to attract buyers have been explored in depth under the literature review while factors determining the choice of competitive strategies have been highlighted in view of influence that firms have in managing some environmental forces to gain benefits. The various types of competitive strategies comprising of low cost leadership strategy, differentiation strategy, focus strategy, the nature of organisational environment, the external environment and the internal environment have been discussed extensively to show the importance of understanding each type of strategy for suitable and relevant choices.

Chapter three discusses research methodology adopted in the case study. A case study is defined as a powerful form of a qualitative analysis and this strongly justifies the choice of Mwalimu SACCO whose findings can be generalised as a representative of other SACCOs. Data collection method is explained while data analysis is said to have been carried out through use of frequencies, percentages, bar and pie charts. The structure of the report is also detailed in this chapter.

Chapter four covers introduction of findings and competitive strategies employed as a way of gaining competitive advantage. Responses on competitive advantage over other SACCOs in Kenya and competition from other SACCOs have been explored in details while cost, product differentiation and focus strategies adoption rates are reported. Under chapter four, the summary of findings gives a broad picture of extent to which different strategies have been employed.

Chapter five covers the overall summary of the case study, conclusions and recommendations for further research. The objective of the study is summarised as establishment of the competitive strategies adopted by Mwalimu SACCO. The chapter gives details of how the survey was carried out and the management team responses to the administered questionnaire. The implications for policy and practice have also been documented in the chapter.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

The aim of this study was to establish the competitive strategies adopted by Mwalimu SACCO due to increased competition as a result of liberalization of the cooperative sector in 1997. The method of data collection was through questionnaires which were developed in line with the study objective.

There were two types of questions namely, closed ended questions for subjective answering and open ended questions were used to give room for quality information that might have been overlooked.

The data collected was analyzed using descriptive statistics. The questionnaires were dividend into four parts. The first section looked at competitive strategies employed. The second part focused on cost strategy while part three and four solicited data on product differentiation and focus strategy respectively. The questionnaires were administered through drop and pick method.

For each question respondents indicated the extent to which the variable was practiced using four point scale ranging from ‘great extent’ to ‘not at all’. The study achieved a response rate of 95% with 19 out of 20 targeted management team responding. The results are given below.

4.2 Competitive Strategies Employed

The researcher sought to know whether Mwalimu SACCO’s strategic plan incorporated the use of competitive strategies as a way of gaining competitive advantage. All the respondents indicated that the plan employed competitive strategies.

4.2.1 Competitive Advantage over other SACCOs in Kenya

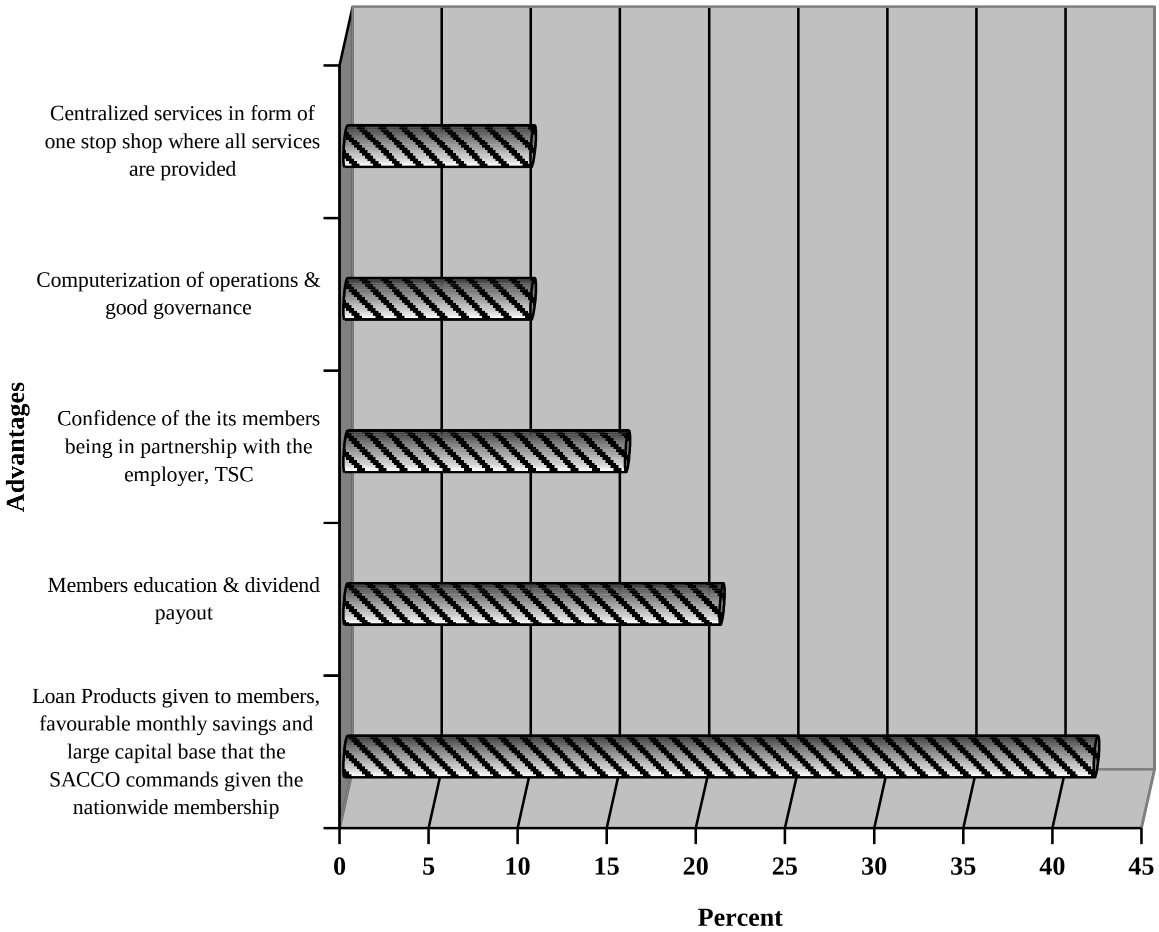
The researcher sought to know whether Mwalimu SACCO has a competitive advantage over other SACCOs in Kenya. The respondents indicated that the SACCO had an advantage over the other SACCOs.

The researcher wanted to know some of the advantages the organization had over other SACCOs.

Table 2: Competitive Advantages of Mwalimu SACCO over other SACCOs

	Frequency	**Percent**
Loan products given to members, favourable monthly savings and large capital base that the SACCO commands given the nationwide membership	8	42.1
Members education & dividend payout	4	21.1
Confidence of the its members being in partnership with the employer, TCS	3	15.8
Computerization of operations & good governance	2	10.5
Centralized services in form of one stop shop where all services are provided	2	10.5
Total	**19**	**100.0**

Fig. 1: Competitive Advantages of Mwalimu SACCO over other SACCOs



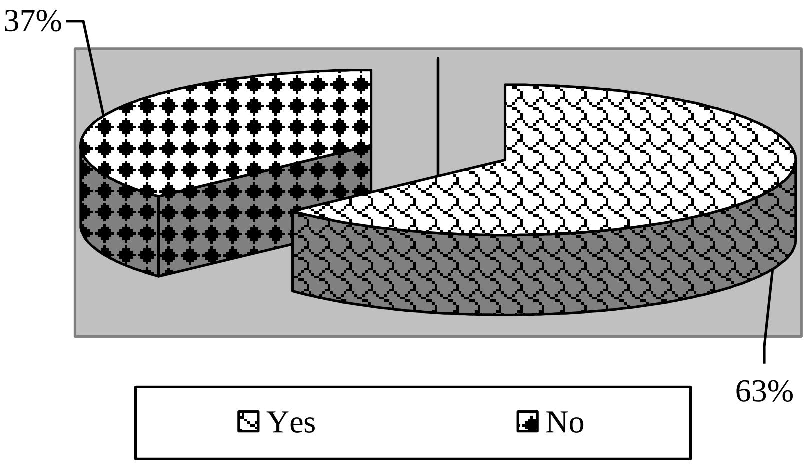
Majority (42.1%) of the respondents indicated that the advantages possessed are such as the loan products given to the members, favourable monthly savings and the large capital base that the SACCO commands given the nationwide membership. 15.8% of them were of the view that Mwalimu SACCO has the confidence of its members being in partnership with the employer, the Teachers Service Commission. 21.1% of the respondents indicated that it catered for members' education and dividend payout as among the competitive advantages that the SACCO commands. 10.5% of the respondents indicated that computerization of operations, good governance and the fact that customers are given centralized services in form of one stop shop where all services are provided was another competitive edge for the SACCO.

4.2.2 Competition from other SACCOs

Table 3: Influence of Competition

	Frequency	**Percent**
Yes	12	63
No	7	37
Total	**19**	**100**

Fig. II: Influence of Competition



The respondents were asked if they considered competition from other SACCOs as a major factor that influences the performance and competitiveness of Mwalimu SACCO. The above table and figure indicate that a majority of the respondent, 63% agreed that competition influences their performance and competitiveness. 37% of the respondents were of the opinion that competition had no influence on the performance of the SACCO.

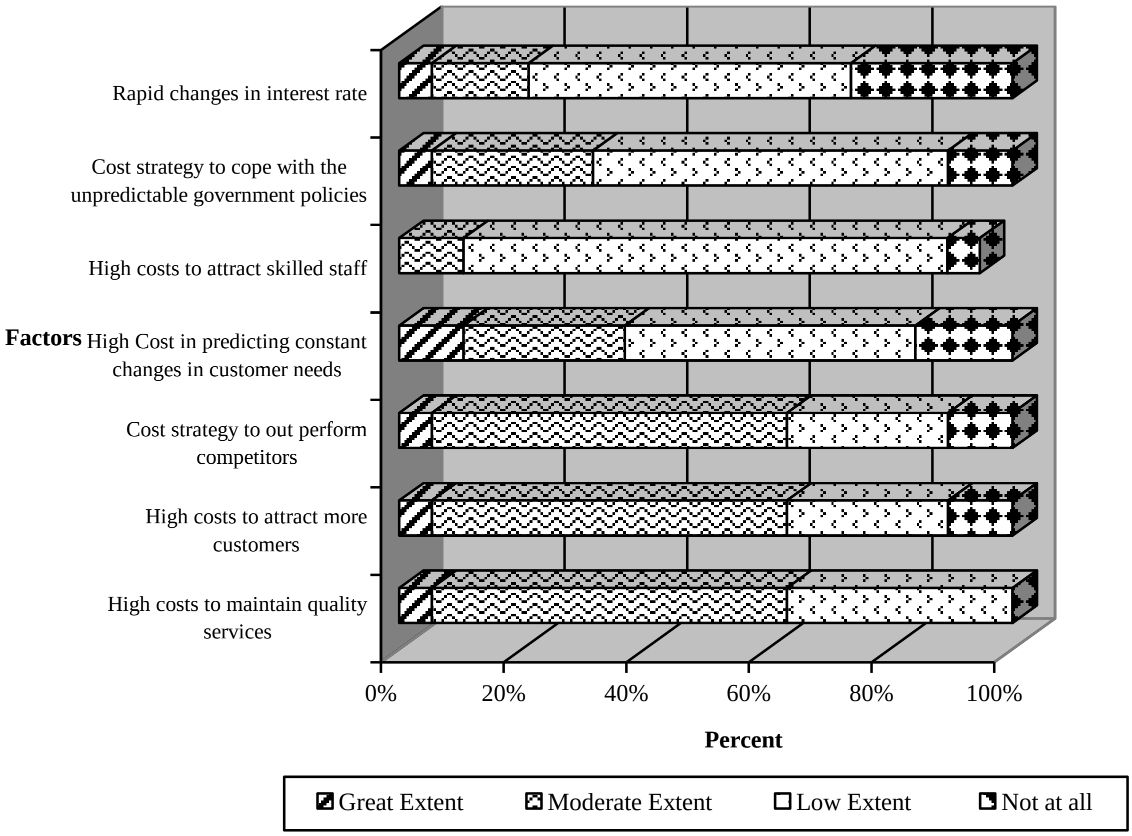
4.3 Cost Strategy

The researcher sought to know the extent to which the organization employed the listed strategies. Table 3 indicates the extent to which the SACCO employed cost strategy.

Table 4: Cost Strategies

Strategies	Greater Extent	Moderate extent	Low extent	Not at all
High costs to maintain quality services	5.3%	57.9%	36.8%	0
High cost to attract more customers	5.3%	57.9%	26.3%	10.5%
Cost strategy to out perform competitors	5.3%	57.9%	26.3%	10.5%
High costs in predicting constant changes in customer needs	10.5%	26.3%	47.4%	15.8%
High costs to attract skilled staff	5.3%	10.5%	78.9%	5.3%
Cost Strategy to cope with the unpredictable government policies	5.3%	26.3%	57.9%	10.5%
Rapid changes in interest rate	5.3%	15.8%	52.6%	26.3%

Fig. III: Cost Strategies



The respondents were asked to state the extent to which their organization employs certain strategies as relates to cost. The responses were rated using percentages. Most of the respondents (63.2%) indicated that high costs strategy to maintain quality services, was adopted. High cost strategy attracted more customers and cost strategy to out perform competitors was used to a moderate extent by majority of the respondents. Most of the other respondents felt that the SACCO was undertaking cost strategy to cope with the unpredictable government policies to a low extent, rapid changes in interest rates, high costs in predicting constant changes in customer needs and high costs strategy to attract skilled staff were rated as to a low extent. Hence we can conclude that Mwalimu SACCO employed low cost strategy in most areas for the SACCO's benefits.

4.4 Product Differentiation Strategy

The researcher sought to know whether the SACCO used the listed strategies to remain competitive. The results were as shown in the table below.

Table 5: Product Differentiation Strategies.

Strategies	Greater extent	Moderate extent	Low extent	Not at all
Offering a wide range of services	42.1%	57.9%	0	0
Continuous study of customer's needs	21.1%	31.6%	41.1%	5.3%
Offering customers what they consider important and valuable	15.8%	36.8%	42.1%	5.3%
Incorporating desired service features into products.	10.5%	52.6%	36.8%	0
Engaging high skilled staff	10.5%	63.2%	26.3%	0
Use of publicity	5.3%	31.6%	47.4%	15.8%
Offering product attributes which differ with those of competitors	10.5%	57.9%	31.6%	0

Fig. IV: Product Differentiation Strategies

The respondents were requested to state whether the strategies were adopted to a greater extent, moderate extent, low extent or no extent at all. Offering a wide range of products was the highest rated with 100% indicating both greater extent and moderate extent, while engaging high skilled staff was rated second with 73.7% of the respondents indicating greater extent and moderate extent, 68.4% of the respondents rated offering product attributes which differ with those of competitors as third while other respondents,

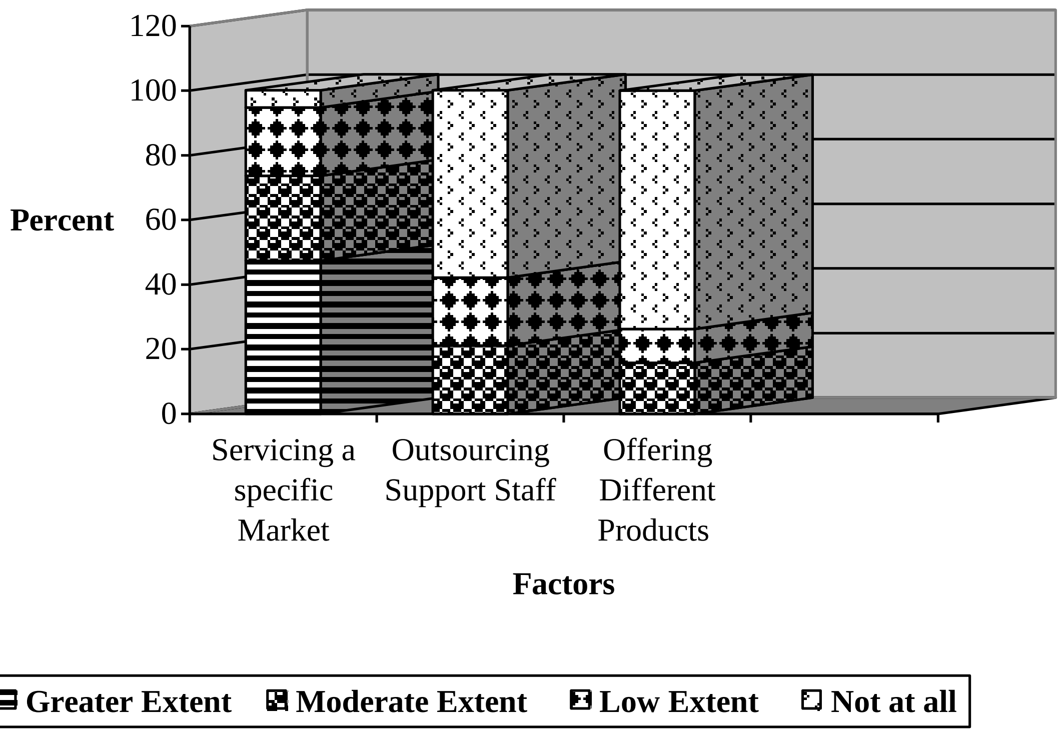
61.1% rated incorporating desired services as fourth. 52.6% of the respondent rated continuous study of customer's needs fifth while 52.6% of the respondents rated offering customers what they consider important and valuable as sixth. Only 36.9% of the respondents rated low the issues of publicity. Hence we can conclude that most of the respondents rated the differentiation strategies highly as a reason for competitive strategies and gaining competitiveness.

4.5 Focus strategy

Table 6: Focus Strategies

	Greater extent	Moderate extent	Low extent	Not at all
Servicing a specific market	47.4%	26.3%	21.1%	5.3%
Outsourcing support staff	0	21.1%	21.1%	57.9%
Offering different products to different geographical areas	0	15.8%	10.5%	73.7%

Fig. V Focus Strategies



In the above table and figure, the researcher also investigated the extent that the SACCO adopted the focus strategy to be able remain competitive in the market. Most of the respondents (73.7%) shown by greater extent and moderate extent responses indicated that Mwalimu SACCO had adopted servicing as a specific market, while 21.1% of the respondents indicated that it adopted outsourcing support staff and only 15.8% of the respondents who indicated that they were offering different products to different geographical areas as reason for the SACCO to remain competitive in the market. This shows that most respondents agree on the strategy that servicing a specific market was important.

4.6 Summary of Findings

The study was set to establish the competitive strategies adopted by Mwalimu SACCO since 1997. The target respondents were the SACCO managers who were a total of 20 out of whom 19 responded. All respondents indicated that the SACCO Strategic plan incorporated use of competitive strategies. On the idea of competitive advantage over other SACCOs in Kenya all respondents indicated that they had an advantage over the other SACCOs in Kenya. These advantages included loan products given to the members, favourable monthly savings and large capital base that they command given the nationwide membership. Also confidence of its members being in partnership with the employer, the Teachers Service Commission, computerized operations and good governance of the SACCO. Those were cited as the core competencies of the SACCO.

On the issue of cost strategy the respondents indicated that the SACCO employed some strategies such as high cost of maintaining quality services and of attracting more customers as well as cost strategy to out perform competitors, with 63.2% of the respondents indicating this. On the issue of product differentiation the respondents (100%) indicated that the SACCO offered a wide range of products. This shows that most respondents were confident about the SACCO's products hence the products encouraged more customers to retain their membership.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings, discussions and conclusions drawn from the study. The chapter also covers the recommendations for further research and implications of the SACCO's practices.

5.2 Summary

The objective of this study was to establish the competitive strategies adopted by Mwalimu SACCO. A survey of the strategies employed was subsequently carried out and management teams in the SACCO were asked to complete questionnaires. The target respondents were twenty in number. Nineteen respondents completed the study questionnaires representing a 95% of response rate.

The findings indicated that Mwalimu SACCO incorporates the use of competitive strategies as a way of gaining competitive advantage in the industry and improving organizational performance. The managers also agreed that the SACCO posses competitive advantage over other SACCOs given that it has nationwide membership and has a wide asset base. The competitive advantage also accrued from the loan products that the SACCO gives to its members. In addition, the members have confidence with the SACCO giving it a better standing over the others. The SACCO considers competition from other SACCOs as a major factor influencing its performance and its competitiveness.

As relates to cost strategy, the SACCO uses most of the strategies to a moderate extent. The use of high costs to maintain quality service, attract skilled staff and more customers have all been used to a moderate extent. The SACCO also uses cost strategy to outperform competitors and to cope with the unpredictable government policies. Rapid changes in interest rates are used to a lower extent. Offering a wide range of products as a differentiation strategy was moderately adopted, while continuous study of customers needs is used to a lower extent. The focus strategy is used by the SACCO to a greater extent and it involves serving a specific market. Under the focus strategy, outsourcing of support staff is used to a moderate extent while offering products to different geographical areas is used to a lower extent.

5.3 Discussions

A competitive strategy is taken to consist of all those moves and approaches that a firm has to among other things, withstand competitive pressure. For the SACCO to withstand its competitive pressure it would help to use most strategies it employs to a greater extent than the current position. This is due to the fact that most of its strategies can easily be copied by competitors thereby leading to loss of business. The SACCO may need to continuously re-evaluate its strategies with a view to a continuous upgrading of the same. It would be beneficial to re-engineer its processes whenever new tastes of customers emerge inorder to cope with the ever changing tastes as regards to desired services.

From the findings it is clear that not all managers saw competition from other SACCOs real, a fact shown by the 37% of responses. On the other side it is evident that competition is real for any operating business organization. The implication is that for effective strategic management all the SACCO managers should think strategically and develop the ability to recognize threats then develop the ability to see strategic moves in motion while organizing the future of the SACCO business by seeing the interdependency of key factors.

The managers would greatly facilitate wealth building of the SACCO if they utilize more of the practical strategies to out perform competitors by focusing on how the SACCO should act and react to emerging opportunities and barriers. The SACCO is portrayed as a firm that combines multiple strategies but to a moderate or low extent. It appears that if it can combine market segmentation strategies with product differentiation strategies then the SACCO can increase its effectiveness in matching its strategies.

5.4 Conclusion

From the findings it can be concluded that the SACCO incorporates the use of competitive strategies as a way of gaining competitive advantage in the industry. The SACCO also possesses competitive advantage over other SACCOs given its nationwide membership. Competition influences the performance and competitiveness of the SACCO. The SACCO incurs high costs to maintain quality service and attract more customers as a cost strategy. To differentiate its services the SACCO uses publicity and offers a wide range of services. High skilled staffs are also engaged in the service provision. The focus strategy on a specific market is used as a means to remain competitive. To a moderate extent the firm out-sources support staff.

To improve the competitiveness of the SACCO, the focus should be towards developing a total quality management system that will ensure that appropriate monitoring of quality and customer needs is carried out in ensuring that the SACCO continuously addresses the needs of its customers better than competitors.

In addition the SACCO should consider analyzing the specific technicalities that exist in each region in order to be able to tailor customer needs to regional specifications for more satisfaction. It is also important for the SACCO to pursue investments in other areas other than the financial sector such as stock market and real estate. This will help increase the asset base and increase financial standing.

To give further direction to the SACCO's values, culture, goals and mission both corporate and functional strategies should be strengthened and made known to all managers. To succeed in building a sustainable competitive advantage the SACCO should try to provide what customers perceive as of superior value which means continuous study of customer's needs must be used to a great extent.

5.5 Recommendation for Further Research

Future studies should attempt to link the performance of the SACCO with the strategies it has adopted. That way, researchers are able to determine how certain strategies when omitted or adopted impact on the bottom line of a SACCO. It is possible that a difference in strategies that are used based on the size of the SACCO could affect its overall performance. Research should also focus on determining why some strategies are used more frequently than others.

5.6 Implications for Policy and Practice

The Ministry of Cooperative Development and Marketing (MOCD&M) should put in place a broad research policy and employ enough staff then distribute them according to the number of cooperative societies throughout the nation. This policy would aim to find out the extent to which cooperative societies adhere to the adopted strategies. That would have implications on the quality of services offered to members noting that the financial environment is very dynamic. On the other hand where there are no primary cooperative societies currently, it is suggested that the government through MOCD&M should either revive or create new cooperative societies.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

MARY MBAI
P.O. BOX 62641
NAIROBI
0722 785 927

To the Respondent

REF: INTRODUCTION LETTER:

My Name is Mary Mbai, an MBA finalist at the University of Nairobi. Having completed part 1 of the course it is required by the university that a part II of the course be undertaken as a research project for one to be considered for graduation.

Given this fact, I would like to carry out a research in your SACCO to establish the competitive strategies adopted given the environmental changes that have existed in the recent past and continue to be felt even today. A copy of the final write-up will be availed to you on request.

I will highly appreciate your willingness to give information that will be critical to the completion of the project. The information will be sought inform of questionnaires which I will drop and pick later. The information obtained will be treated with great confidentiality and only used for research purposes.

I thank you in advance as I look forward to obtaining the valuable information concerning the SACCO.

Yours sincerely

Mary Mbai
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

APPENDIX II: INTERVIEW GUIDE

1. **Competitive Strategies Employed**: Does the Strategic plan of your SACCO incorporate the use of competitive strategies as a way of gaining competitive advantage in the industry and/or improving organizational performance?

   Yes ( ) No ( )

2. **Competitive Advantage over others:** Does your SACCO possess a competitive advantage over other SACCO's in Kenya?

   Yes ( ) No ( )

   If yes, which advantage does it achieve? (Please specify)

   ____

   ____

   ____

3. **Influence of Competition:** Do you consider competition from other SACCOs as a major factor influencing the performance and competitiveness of your SACCO?

   Yes ( ) No ( )

4. **Cost strategy:** To what extent does your organisation employ the followings strategies?

	Greater extent,	Moderate extent,	low extent,	Not at all
High cost to maintain quality service	( )	( )	( )	( )
High cost to attract skilled staff	( )	( )	( )	( )
High cost to attract more customers	( )	( )	( )	(
Cost strategy to out perform competitors	( )	( )	( )	( )
Cost strategy to cope with the				
Unpredictable government policies	( )	( )	( )	( )
Rapid changes in interest rates	( )	( )	( )	( )
High cost in predicting constant				

changes in customer needs	( )	( )	( )	( )

Any other? Please specify

………………………………………………………………………………………

………………………………………………………………………………………..

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5. **Product Differentiation:** To what extent does your SACCO adopt the following strategies to remain competitive in the market?

	Greater extent,	*Moderate extent ,*	*low extent,*	*Not at all*
Offering a wide range of services	( )	( )	( )	( )
Continuous study of customers needs	( )	( )	( )	( )
Offering customers what they consider important and valuable	( )	( )	( )	( )
Incorporating desired service features into products	( )	( )	( )	( )
Engaging high skilled staff	( )	( )	( )	( )
Use of publicity	( )	( )	( )	( )
Offering product attributes which differ with those of competitors	( )	( )	( )	( )

Any other? Please specify…………………………………………………………

6. **Focus strategy:** To what extent does your SACCO adopt the following strategies to remain competitive in the market?

	Greater extent,	*Moderate extent,*	*low extent,*	*Not at all*
Servicing a specific market	( )	( )	( )	( )
Outsourcing support staff	( )	( )	( )	( )
Offering different products to different geographical areas	( )	( )	( )	( )

Thank you very much for your time and cooperation