



FACTORS INFLUENCING COMPETITIVE ADVANTAGE OF SAVINGS AND CREDIT COOPERATIVES ORGANIZATIONS (SACCOS) IN KENYA
(Case study of Deposit Taking SACCOs in Nairobi County)

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Abstract: The researcher carried out research on the factors influencing competitive advantage of Savings and Credit Co-operatives (SACCOs) in Kenya: A Case study of Deposit taking SACCOs in Nairobi County. The SACCOs sector has grown tremendously in Kenya resulting to fierce competition and changing their strategies to stay ahead of the game. The factors analyzed were access to funds, operational risk management, saving mobilization and innovation. This study adopted a descriptive research design. The target population of the study comprised of 420 employees from the Deposit Taking SACCOs within Nairobi County. The researcher used stratified random sampling method to select the desired sample size of 120 respondents from the director SACCO officials and SACCO employees. Structured questionnaires were used to collect data. Descriptive and inferential statistics were used in the analysis of quantitative data collected by use of structured questions. The study found that most of the SACCOs confirmed that access to funds, operational risk management, saving mobilization and innovation affect competitive advantage. The study concludes that access to funds promote competitive advantage by ensuring the funds are available and accessible by its members. The study found that the SACCOs embracing operational risk management, there will be some effect on its competitive advantage as risk management has become key component of competitive advantage. The study also revealed that if the SACCOs adopt saving mobilization, there will be some effect on its competitive advantage that is in cases of defaulters, recovery isn't easy hence performance of the SACCO is retarded. If the SACCOs embrace innovation, it will not enhance its competitive advantage. The study concludes that access to funds affect competitive advantage of the SACCOs if they make the financial services affordable and easily accessible. Operational risk management can enhance competitive advantage, if standardized reports can tract risks in an enterprise and hence improve the executives and directors focus in the provision of data to enable better decisions on risk mitigation. Savings mobilization can only enhance competitive advantage if there is proper administration of the funds besides severe punitive measures for debt defaulters and embezzlers. For the SACCOs to be successful and competitive through innovations, a cooperative needs at least to maintain a large volume of member transactions. In light of the findings, the study recommends that the SACCOs should focus more on mobile banking to have efficient funds accessibility to its members. The study recommends that SACCOs should have in place risk and internal audit team for enhancing financial control and management of risk. The study recommends that SACCOs should involve training activities where members can be informed of the benefit accrued to saving in Saccos the study recommends that new technology should also be well incorporated for the innovation to be sustainable. The study also suggests that further research be done on the factors affecting sustainable competitive advantage of SACCOs in Kenya.

Key Words: Competitive advantage, Innovation, Savings Mobilization, Operational Risk Management

Introduction

An organization is considered to have a competitive advantage if it is capable of securing customers and defend itself from competitive tactics of its rivals. Sustainable competitive advantages comes from a firm core competencies which result to a firms benefits in the long term (Thompson & Strickland, 2002). The main basis of competitive advantage is the provision of superior valued goods and services to customers in comparison to what the other rival firms are offering. Superior valued good or service can be in form a quality good that is being sold at a cheaper price, a superior good or service that a customer is willing to pay more for or a best value offer which provides a combination of attractive quality service, prices, features and other appealing characteristics. The deliverance of superior value in any form always requires the performance of value chain activities in a different way compared to ones rivals and the building of resource capabilities and competencies that cannot be matched by the competitor (Arthur & Gamble, 2009).

An advantage that is gained over competitors through offering greater value to customers either by lowering prices or by offering additional benefits and services, which justify similar or possibly higher prices is known as competitive advantage. Growers and producers who are involved in niche marketing find and nature a competitive advantage thus increasing profits and this is a venture that will be successful and sustainable in the long-term. It is important to begin by taking a more in-depth look at what it means to have a competitive advantage, an edge over the completion. In essence, the question answered by competitive advantage is “Why should the customer purchase from this operation rather than the competition?” It will be difficult to answer this question in ventures and especially where products and services are less differentiated. It is important that a venture that has customers has customers for certain reasons. Business success is dependent on the competitive edge that gradually builds a core of loyal customers and can be expanded over time. Competitive advantage basically lies in the available resources and abilities despite resources not being recognized initially. A critical look on the resources and products/services offered should be done (Barone & DeCarlo 2003).

If an enterprise can come up with a more economic value as compared to its competitors then it can be considered to have a competitive advantage. The difference between a product’s perceived benefits gained by a customer who buys the product and the economic cost of the product is what is termed as economic value (Barney, 2007). He goes further and adds that competitiveness of the firm can either be sustained or temporary. A competitive advantage that is temporary is a type of competitive advantage that persists for a short duration of time as compared to a sustained competitive advantage. In the mid-1980, Michael Porter (Porter, 2008) came up with the competitive advantage concept which was an outgrowth of the comparative advantage law which was developed by David Ricardo during the 18th century. A competitive advantage can be in the form of cost advantage where a firm delivers a product or service with similar benefits like the competitors but at a lower cost or in terms of differentiation advantage where the firm provides a product or service with better benefits compared to those of a rival firm. These two advantages that describe a company’s position as a leader in the industry in terms of differentiation or costs are termed a positional advantage (Porter, 2008). A competitive advantage also refers to a situation where an organization implements a strategy leading to value creation that is yet to be implemented by the competitors who are current or potential (Clulow & Barry, 2003).

Building competitive advantage entails understanding market needs (customers), and also designing a strategy that will make use of resources that can be availed and those that are available thus setting the business apart from competition. This strategy should take into account the target market, strengths and weaknesses in the business, goal in the business, products/services that have been developed in the

business as well as the strategies for competition. Differentiation of the product from the competition along a attributes that are essential and relevant to customers helps in building a sustainable competitive advantage (Barone & DeCarlo, 2003). Competitive advantages don't tend to stay competitive advantages without significant effort. Competitors duplicate the successful advantage for themselves and as changes in the market may erode the edge over time. Establishing the edge is half the battle and maintaining it is the other half. Analysis on the venture's product being offered and management will assist the venture to remain current on the situation. Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value can be defined as what the buyers are willing to pay and superior value originates from offering prices that are lower than those of the competitors for benefits that are equivalent of through providing benefits that are unique that offset higher prices (Porter, 1985).

Statement of the problem

The need for competitive advantage in all types of organizations arises as organizations grow and competition intensifies. This case becomes true of the SACCO sector in Kenya. Here in Kenya, current SACCO markets are saturated with similar products, decreased economies of scale and high competition. Lack of the right marketing knowledge, skills and strategies has made the situation worse and SACCO's are still struggling to grow market share also developing new products and services to enable SACCOs to prosper is a challenge (Ademba, 2009).

For Saccos to survive, prosper and achieve a sustainable competitive advantage, their managements need to consider some factors in their strategies and plans that can help in improving sales and increasing their dominance in their target markets (Ademba, 2009). KUSCCO (2015) states that, there are different challenges which include insufficient capital, competition from commercial banks, inefficient loan pricing strategies, and slow or lack of information technology adoption among others and there is need to address these challenges and strengthen the Kenyan cooperative movement since KUSCCO does believe that there is strength in unity and have come up with products and services that can benefit all the Kenyan SACCOs and their members.

Unfortunately, SACCOs do lose their market share although they are widely spread on the country. Fin Access 2009 explain that, the loss of customers by the SACCOs is caused by two major factors. First, the competition from banks because banks are able to offer easily accessed transaction and consumer loans through the use of a proactive outreach. The other factor is the attrition of the SACCOs market base due to public sector retirements and the younger employees preferring to patronize banks. If good cooperate governance exists, there will be healthy competition in the SACCO industry and those who will not survive will lose their members to more competitive SACCOs. This can largely impact the sector as large SACCOs will invest in product development and systems so as to remain in the industry.

Small SACCOs on the other hand will find it very hard to attract new business and compete in such an environment which means they will lose many of their members to providers who are competitive (Ministry of cooperative development and marketing, (2009-2013). The situation in most of these SACCOs is characterized by haphazard marketing strategies, lack of coherence, and lack of focus (Ministry of cooperative development and marketing(MCD&M), 2009-2013). There is no concerted effort for initiating and sustaining a strategic marketing culture and empowerment for the same. It is on this ground that the researcher sought to analyze the factors influencing competitive advantage of SACCOs in Nairobi County.

The objectives of this study were;

- i. To find out the effect of access to funds on the competitive advantage of savings and credit cooperatives organizations in Kenya.
- ii. To establish the effect of operational risk management on the competitive advantage of savings and credit cooperatives organizations in Kenya.
- iii. To determine the effect of saving mobilization on competitive advantage in savings and credit cooperatives in Kenya.
- iv. To determine the effect of innovation on the competitive advantage of savings and credit cooperatives in Kenya.

Theoretical orientation

A theory refers to a group of interconnected ideas that help in shaping and organizing a logical and organized view of a phenomenon with an aim of describing and predicting that phenomena (Fox & Bayat, 2007). This study was informed by two theories; Resource based view theory and market based view, whose tenets are discussed in detail.

Resource based view theory (RBV)

Resource based view is a competitive advantage approach that emerged in the 1980s and the 1990s after it was published by Wernerfelt (1984) and others. According to the supporters of this theory firms should consider the sources that are part of the firm which can help them achieve competitive advantage instead of looking at the competitive environment where they hope to find these sources. RBV applies the intangible and tangible resources found within the firm to achieve a competitive advantage (Wernerfelt, 1984). Porter adopted this view when he argued that an organization can have a competitive advantage it uses its superior resources and capabilities to deliver a more superior value to customers than its competitors (Porter, 2008). Porter (2004) was of the view that for a firm to make any strategy that helps it to succeed, then it has to consider incorporating competitive advantage. For a firm to attain a competitive advantage then it has to choose the type of competitive advantage it will pursue and the scope within which this advantage will be pursued. A competitive advantage emanates from the firm internal resources rather than the environment within which the firm exists according to this theory. Some of the resources must be able to promote a distinctive competitive advantage in the firms' market segment if the company is to attain above average returns in the industry. The emphasis of the resource based view of strategy development is on the organization's own resources which include its physical resources such as machinery and plant and its people resources such as leadership and skilled workforce and more importantly the way the resources interact in the firm (Lynch, 2009).

The proponents of this theory argue that only the special resources in the firm can help in attaining a sustainable competitive advantage. Firms should seek to come up with resources that are imitable with time so that they can achieve meaningful and long term competitive advantage (Clegg et al., 2011). The way in which the tangible resources in the organization are deployed determines a company's competitive advantage. Resource based view as explained by Wernerfelt, (1984), advanced the idea that the firm strategy is a function of the compliment of the resources held. The argument of the RBV model is that competitive advantage is achieved when resources that are exclusively owned by a firm are used in the development of unique competencies which leads to competitive advantage that is sustainable for some time as there will be no substitutes or imitations from rival firms. Competitive

advantage can be said to be as a result of the ownership of resources that are valuable which allows a firm to perform its operations in a better way than the competitors. The capabilities of a firm are defined in terms of the firm's assets, people, skills which combine and are used for transformation of the available inputs to outputs. The nature of RBV ensures; inimitability, durability, appropriability, substitutability and competitive superiority (Foss, 1997). RBV argue that competitive advantage achieved by a firm is due to availability of firm specific capabilities and resources that are too expensive for competitors to copy (Barney, 1991). These capabilities and resources are used to achieve a competitive advantage which is sustainable leading to superior firm performance if they have special attributes. They should be rare, non-substitutable, effective, imperfectly imitable, efficient and valuable (VRIN) (Barney, 1991).

The Market-Based View (MBV)

The Market-Based View of strategy indicates that the factors of an industry and the external market orientation of a firm are the key firm performance determinants in any industry (Porter, 1996; Peteraf & Bergen 2003). There are two main theories that form the basis of market-based view. These include Structure-Conduct-Performance (SCP) framework developed by Bain (1968) and Porter's (1980) five forces model. A firm's value sources are implanted in its competitive position, which characterizes its strategic position in its end product.

The firm's strategic position is the unique and inimitable and group of activities that its rivals does not have. This position is also defined by how a firm perform similar activities to other firms but in a different manner. From this viewpoint a firm's profitability and general performance are significantly influenced by the industry's structure and dynamics (Schendel, 1994).

In coming up with a strategy, companies usually make an overall assessment of the competitive advantage they have through assessing the external environment using the five forces model (Porter, 1985). The forces under consideration in this model include, threat of substitutes, barriers to entry, bargaining power of buyers, rivalry and bargaining power of suppliers among their competitors (Porter, 1985). Based on this perspective, a company's market power sources are used to explain its performance. There are three market power sources that are highlighted which are bargaining power, monopoly and barriers to entry (Grant, 1991). If a firm has monopoly then its market position is better and so is its performance (Peteraf, 1993). If there are high barriers to entry in a market, competitors find it hard to enter the market and the firms inside the market perform better. If a firm has a high bargaining power in the industry relative to its customers and suppliers then it can perform better in its operations (Grant, 1996).

The five-force model allows firms to analyse the industry current position in a structured manner. This model however has its own limitations. It assumes a perfect market that is static in structure which is hard to exist in today's ever changing markets. According to Wang (2004), some of the industries have multiple inter relationships which are very complex which leads to difficulty in comprehension and analysis using the Porter's model. In addition, Rumelt (1991) indicates that the most important firm's profitability determinants are specific to a firm and not to an industry. According to Prahalad and Hamel (1990) competitive advantage that is achieved from capabilities and resources is more important than that achieved from market and product positioning since the former leads to a sustainable competitive advantage. Penrose (1959) argues against the Porter's focus in industry pointing out that the firm's main source of competitive advantage are the heterogeneous resources that belong to the firm. Furrer et al. (2008) point out that from the 1980s onwards, the focus of strategic

management studies have shifted from the structure of the industries views such as MBV to the internal structure of the firm and the firm's internal resources and capabilities.

MBV view includes the theories of strategy that are based on the positioning school and theories that were developed during the strategic thinking development phase by Hoskisson (Porter 1980; Hoskisson et al., 1999). During this phase, the main focus of an organization was on external environmental factors. According to Furrer et al. (2008), the performance of a firm by then was only depending on its business environment. A strategy was looked at from an industry perspective and a firm's position in the market was considered relative to its competitors.

Empirical review

The following section reviews research that has been done on several areas on competitive advantage.

Access to funds

The Central Bank of Kenya, Financial Access in Kenya, partnering with Deepening Trust of Kenya pioneered a study that looked at the Kenyan financial access trends and the study was done again in 2009. The study was based on a review of; insurance companies, banks, formal financial sector, Postbank, microfinance institutions (MFIs), non-bank financial institutions (NBFIs) and SACCOs. The providers of informal services included; accumulating savings and credit associations (ASCAs), rotating savings and credit associations (RoSCAS), groups or individuals other than friends or family and unbanked (Ministry of Cooperative Development and Marketing, Kenya, 2012).

A major competitive advantage a firm can have over its competitors is the access to working capital. Access to capital is the difference between a large and small company and difference between a billion dollar company and a million dollar company (World Bank, 2010). Members or customer in any financial institution can access funds through mobile money in which mobile money is where mobile phones are used to conduct financial services such as paying for services and goods, receiving and sending money, accessing bank accounts for deposits or withdrawals, remittances, buying airtime viewing of their financial bank statements and other services related to these services. Thus it is related to financial services and mobile telephones adopted by the World bank (2010) to conduct financial transactions. Cooperatives should realize they do not only compete against themselves, but also against other lenders such as banks, micro-finance institutions, mobile phone companies with their credit services, informal groupings and welfare associations. According to (Owino, 2011) cooperatives should merge in order to enrich their capital base and also compete in order to ward off threats from their more established common bigger rivals – commercial banks – whose loan arrangements are now almost favourable as those of cooperatives.

Okwany (2010) pointed out that access to finance is one of the major challenges faced by youths in trying to expand their enterprises or become employed as they are viewed as risky in terms of their loan repayment. Access to finance for different people can be in various informal ways including; accessing it from informal lenders, selling labours or from family and friends. The access to finance that is provided by SACCOS affect the growth of youth entrepreneurs due to the different aspects used by SACCOs top increased the access to funds. These aspects reduce the barriers to finance for youths which increased the financial accessibility for youths. Some of the factors that attract youth entrepreneurs to SACCOs provided finances include; sharers held, regular savings, interest rates processing time, amount given and interest rates. This fact agrees with Cracknel (2012) view that where terms of payment, duration of credit, provision of supplementary services and the needed

security are not set to meet the target group needs, then the target group will not apply for credit if it is available as they will be denied access of the credit.

So as to increase national savings relative to the national GDP the Kenyan government under vision 2030 came up with financial sector reforms that were based on three main pillars; provision access to financial services including to those in rural areas, which would lead to creation of employment and the enhancement of delivery of financial services. This would lead to reduction in the cost of delivery, stability of the financial sector and reduce financial crisis risks through positioning hence attaining competitive advantage. Included in these reforms was the strengthening of other financial providers including SACCOs and Micro Finance institutions that complimented banks especially among Kenyans and small businesses in the financial markets (Ministry of Cooperative Development and Marketing, 2012).

Operational risk management

According to Koomson, (2011), the financial institutions today keep on changing and are highly competitive. With numerous Sacco's services and products, they are in constant competition with each other for customers. This has made financial institutions more customer-focused. Therefore there is a great extent to which most financial institutions perceive operational risk management as a source of competitive advantage. In addition, operational risk management is another source of competitive advantage when operational risk management is effectively used it can be an important part of competitive advantage as investors look at risk management elements as indicators of financial performance and corporate quality.

The management must therefore put in place strategies that will help in ensuring that operational risk factors that are outlined above are managed effectively and efficiently to avert any losses that may occur (Koomson, 2011). Operational risk management in financial institutions in the past decade has been highly emphasized. Frauds involving finances, financial scandals, system failures and information technology failures have been experienced both in the financial and non-financial sectors and how internal factors inside the organizations can be used to handle such issues. Management of operational risks involves all the day to day functions, people and processes and the technology resources that are part of a firm. These elements are the ones that drive shareholders value, revenues and competitive advantage. Included in operational risk management is preparedness and the recovery process in case a firm suffers from a financial crisis, manmade or natural disaster, pandemic outbreak or a terrorist attack. The use of wide risk management models that are effective lead to resilience to business protocols so that they can manage disruptions, increase their agility in operations which lead to great benefits for such firms (Booz, 2011). Standard operational risk practices should ensure the continuity of the business and also consider scrutiny from regulators. When these activities are approached in a more holistic approach, they can lead to increased flexibility in the firm. Convergent risk management approach also includes pragmatic operational planning whose focus is on the business impact of unpredictable disruptions a resilient firm will be flexible enough to respond to such crisis. This capability should be an important part of the business operations. Many financial firms do list crisis management plans, business continuity, disaster and pandemic recovery and facility evacuation as part of their risk management process however only those firms that are diligently resilience incorporate disparate programs and sustain their multidimensional operation strengths in such circumstances (Booz, 2011). Operational risk management is today seen as a means to improve effectiveness of processes, managing external risks such as regulatory and reputation risks and as a means of better communication. This means that it can be used as a means of attaining competitive advantage and not only used to avoid negative outcomes (Denayer 2004).

Young and Theodore (2003) explains that a risk management system that is sound can also affect credit ratings, share prices, organizational reputation, and competitive advantage of the organization. Analysts and investors are paying more and more attention in assessing their management, their approach and the expected long-term business performance. Proactive operational management could protect a firm from damage and can further protect shareholders value, can help a firm render services without interruptions, avoidance of regulatory burden and censure, maintenance of a good reputation and maintain the investor and public confidence in the firm. Therefore, they should have in place risk and internal audit team in the SACCO that is vital for risk management. It is obvious that protective operational risk management will result to greater efficiencies and lower the costs of lending money which will result to a competitive advantage for the firm (Fung, 2006).

Saving mobilization

Savings mobilization refers to the creation of safe institutions that ensure savers keep their deposits and upon withdrawal the savers will receive their funds and a real return (World Council of Credit Union (WCCU), 2010). This means coming up with products that are appropriate that satisfies the demand for voluntary savings services and the marketing of such products to savers that have different income levels (Kimisitu, 2013). Simply savings mobilization is the capture of savings deposits that have been voluntary given by savers, protecting, managing and using them to fund loans to others. This improves protection of members saving by creating safe institutions. To make clear the distinction, forced savings are those contributions to a savings account required to gain access to loans. Saccos are urged to expand Savings Mobilization as a strategy to reduce costs of maintaining small-value savings accounts, as well as methods to encourage clients to increase their deposit balances. The Sacco also focuses on helping clients better manage financial assets and develop financially responsible habits. This effort is complemented by test activities in financial education using mobile phone technology together with a grant provided by sub-grant from Microfinance Opportunities.

SACCOS should work with institution and individuals to promote savings services in innovative ways to encourage clients to save more. Savings mobilization is a key component in any development endeavor, as it is believed to be the surest way of increasing income and boosting productivity of any society. The role of financial markets in mobilizing savings and in channeling funds into productive investment is central to a successful strategy for economic and human development. Although according to neoclassical growth theory by Harrod-Dommar and Robert Solow's Savings mobilization is not an end in itself, but plays an important role in sustaining growth and development. Through savings there can be capital accumulation leading to investments hence economic growth and ultimate development. A high saving economy accumulates assets faster, and thus grows faster, than does a low saving economy. SACCOS in Africa are intended to offer an alternative to improving the desirable situation in low-income countries. SACCOS can also contribute favorably to Human Integrated Development (Venansius, 2014).

In embracing saving mobilization the cooperative societies should have regulatory framework is regulatory and legal framework which needs to undergo through the necessary legislative development concurrently with the imperative of designing management and accounting systems appropriate for financial cooperatives and building capacity among the SACCOs. The development of SACCOs regulatory framework is an ever-changing phenomenon and it there is therefore need to learn from countries that have progressed more in the SACCO field on savings mobilization. Monitoring and mentorship of cooperatives; SACCOs are to be constantly monitored to find out whether they comply with Cooperative Banks Act, Cooperative Act, their own internal By Laws and internal documents like

business plans and budgets. Such constant monitoring can lead to improvements in management practices of the SACCOs on savings mobilization.

Innovation

So as to be more competitive firms often look at new methods, services and tools that can help them achieve a competitive advantage. To attain a competitive edge firms introduce new innovative products and services (Sambamurthy et al., 2003). He adds that today information technology acts as the corner stone in service improvement, innovation and assisting companies to provide better services to the market helping the firm achieve a competitive advantage. Information technology and related services have helped firms come up and incorporate rapid changes in the firm's structures from the production stages of products to the provision of customer support (Agarwal, Sambamurthy & Grover, 2002) which results to the enhancement of the competitive strengths that belong to the firm.

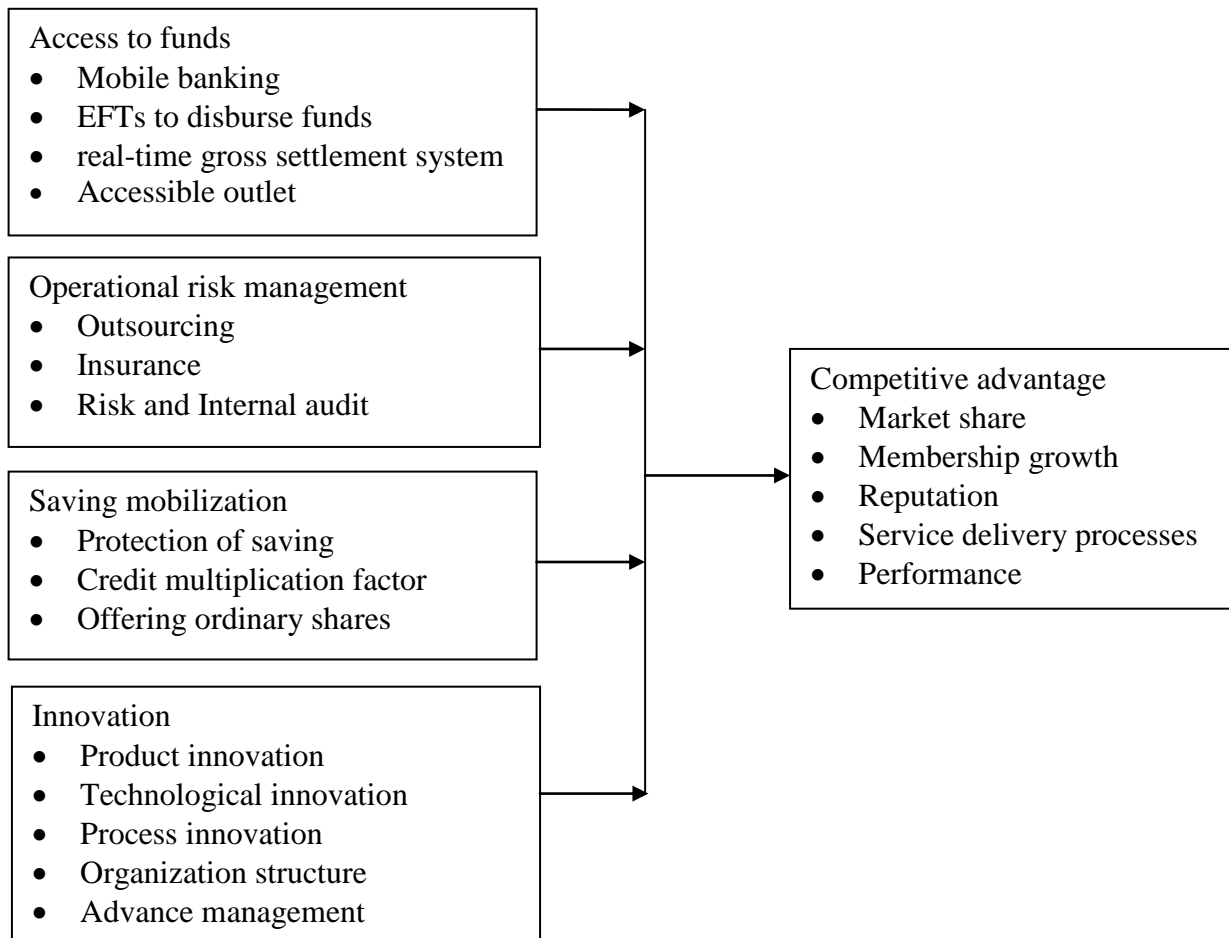
Many scholars and managers are interested in the innovation topic as prove shows that innovation can be used to provide sustainable competitive advantage. Each innovation adopted by a firm has a positive impact on the aspects of the organization, sustainable competitive advantage can be achieved if firms are able to effectively manage their operations today while creating innovation for tomorrow (Tellis et al., 2009). Rubera and Kirca (2012) are supporters of this argument and propose that innovativeness leads to positive impacts on a firm's value and its financial position and today innovation is used as a key to unlocking firms' competitive advantage for firms and countries as well. These perspectives show that innovation environments such as market innovativeness, firm, product and industry can also be said to be globalization drivers.

Schumpeter was the one who used the word innovation for the very first time during the start of 20th century. His research in the topic was developed by other scholars. According to Schumpeter, innovation is a process, product or changes in the organization that necessarily do not come from new scientific discoveries (Zizlavsky, 2011), but can arise through technologies that are already existing and their application to a new concept (Zizlavsky, 2011). Martín-de Castro, Delgado-Verde, Navas-Lopez and Cruz-Gonzalez, (2013) explain that the development of technological innovations that are successful paramount if a firm wants to create and sustain its competitive advantage. According to Zemplerova, (2010), the expenditures used on research development and the introduction of innovations are the characters that determines whether the firm will get a big market segment

According to Garagannis (2010) in revisiting Schumpeter work on innovation, firms can introduce innovations in the five ways. The first one is the new or improved product generation; two, new production process introduction; three, new sales market development; new supply market development and fourth reorganization or restructuring of the company. The above definition clearly differentiates innovation from changes in the makeup or delivery of product in terms of product differentiation, extension of product lines and adding of service components. Therefore institutions like SACCOs should come up with new methods of delivery of service even as members want a new change so as to ensure growth and retain its members. Innovation is also related to other fields rather than the product fields and activities that can be innovated themselves as an innovation process, this is adoption of new or improved methods of production.

Conceptual Framework

This study will utilize the following conceptual framework which is based on the factors which we have been explaining as influencing competitive advantage. The conceptual framework deals with the factor influencing competitive advantage of Saccos in Nairobi County.



Independent variables

Dependent variable

Figure 1: Conceptual frame work

Research Methodology

The study adopted a descriptive research design in soliciting information on factors influencing competitive advantage in the SACCO sector specifically in Nairobi County. The study involved a field survey where respondents had to answer questions preferred to them, formulating the objectives of the study, designing the method of data collection and analyzing the results.

The population under study were of similar characteristics and consisted of all thirty five SACCOs dully licensed to carry out deposit taking business in the Nairobi County which comprised of one directors, three SACCO officials and eight supporting staff per SACCO making a target population of 420 employees.

A sample size (*S*) of 120 employees was used from the total population by use of a sampling framework suggested by Kathuri (1993). Stratified random sampling was used and the SACCOs were stratified in line with their members. The framework of Kathuri and Pals (1993) was used to determine the sample size got from each of the stratum. Simple random method was used to select samples from the population in each of the stratum and the needed sample size was got from the total population. The allocation of respondents in each of the stratum was done by use of the following formula;

$$ni = \frac{Ni}{N \times n}$$

Whereby;

n_i = Number of members in the sample from strata i for $i = 1, 2, 3$

N_i = Number of members in the population from strata i for $i = 1, 2, 3$

N = Number of members in the entire population

n = Sample size

Table 1: Sample size

| Categories | Target population | Sample size(s_i) | Percentage |
|-----------------|-------------------|----------------------|------------|
| Directors | 35 | 10 | 8 |
| Sacco officials | 105 | 30 | 25 |
| Employees | 280 | 80 | 67 |
| Total | 420 | 120 | 100 |

For easier analysis, structured questionnaires were used to get data from the employees. The questionnaires were administered to the employees (Directors, SACCO officials and supporting staff) during working hours. Before carrying out the actual study, a pilot study was conducted. The questionnaires were pre-tested in 5 societies in Nairobi County using a pilot study to prove their validity and reliability. The instrument reliability was calculated using Cronbach's Coefficient Alpha for both the even and uneven items in line with their arrangement in the questionnaires. Fraenkel and Wallen (2000) point out that acceptable reliability should be 0.70 or higher thus if Coefficient Alpha of 0.7 is achieved the instrument is accepted otherwise if a lower coefficient is obtained the instrument was revised so as to get an acceptable measurement of ≥ 0.7 .

The data was analysed by employing both descriptive and inferential statistics such as percentages, frequencies tables, graphs, measures of central tendencies and means. Statistical package for Social Science (SPSS) was used to aid in analysis because it could perform many statistical calculations easily and quickly. Multiple Regression Model was used to determine the relationship between competitive advantage and its various determinants. The Multiple Regression Model was used in the study as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

Y = Dependent Variables, SACCO competitive advantage

X_1, X_2, X_3, X_4 = Independent variables (access to funds, operation risk management, saving mobilization and innovation)

β_0 = the constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = the regression coefficient or change included in Y by each X

e = error term

Results And Discussion

The study sampled hundred and twenty (120) respondents from the duly licensed SACCOs in Nairobi County. However, out of the 120 questionnaires distributed, one hundred and three (103) respondents

completely filled in and returned the questionnaires which comprised 85% of the respondents. This response is reliable for data analysis. Mugenda and Mugenda (2003) explained that a response rate of 60% is good and a response rate of 70% and over is excellent.

Reliability Analysis

The reliability of the questionnaires was evaluated through Cronbach's Alpha which measures internal consistency. The finding of the pilot study shows that the scales were reliable as their values exceed the prescribed by Mugenda and Mugenda (2003). Cronbach's alpha (0.792) was above 0.7 inferring that the data collection instrument is well structured as to collect recommended primary data.

Table 2: Reliability test

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .792 | 20 |

Descriptive Statistics

The main research objective was to determine factors influencing the competitive advantage of deposit taking SACCOs in Kenya. The respondents were to determine to what extent the SACCO competitive advantage is influenced by the following factors using a 5-point scale. 1 strongly disagrees, 2 disagree, 3 neutral, 4 agree and 5 strongly agree. The following subheadings represent the findings on factors influencing competitive advantage.

Access to funds and competitive advantage

The study sought to establish the extent to which access to funds influence competitive advantage. Table 3 the study sought the extent to which access to funds affect competitive advantage. According to the findings most of the respondents agreed that mobile banking; EFTs and accessibility affect competitive advantage as shown by 3.6214, 3.525 and 3.7961 respectively. The other respondents were neutral on effect of real time gross income on competitive advantage of the SACCOs.

Table 3: Agreement level with access of funds in SACCOs in Kenya

| | Mean | Std. Deviation |
|-----------------|--------|----------------|
| Mobile Banking | 3.6214 | 1.16414 |
| EFTs | 3.5825 | 1.17594 |
| Real Time Gross | 3.2233 | 1.25192 |
| Accessibility | 3.7961 | .97377 |

Operational risk management and competitive advantage.

The study sought to establish the extent to which operational risk management influence the competitive advantage of the SACCOs in Nairobi County. The study found that the respondents agreed on outsourcing certain aspects of their business activities like information technology and specific operations as shown by a mean of 3.6796. The study found that most of the respondents were neutral on using specialized products that protect them against direct financial loss as shown by a mean of 3.2816. In addition the respondents agreed that the Sacco has in place risk and internal audit team in the Sacco which is vital for risk management as shown by a mean of 3.5631. This is an indication that SACCOs in Nairobi County have varied reasons for adopting saving mobilization.

Table 4: Agreement level with operational risk management

| | Mean | Std. Deviation |
|---|--------|----------------|
| Outsourcing (information technology and specific operations) | 3.6796 | 1.26191 |
| Uses specialized products that protect them against direct financial loss | 3.2816 | 1.36782 |
| Has in place risk and internal audit team in the Sacco which is vital for risk management | 3.5631 | 1.21808 |

Reasons for adopting saving mobilization in the Sacco

The study also sought to establish the extent to which saving mobilization affects the competitive advantage of the SACCOs in Nairobi County. Table 5 the study found that the respondents agreed on improved credit multiplier (loan versus saving ratio) as shown by the mean of 3.5631 and improved protection of members savings as shown by a mean of 3.6408. The study found that respondents were neutral on improved offer for ordinary shares/securities to Sacco members while competing against rivals as shown by a mean of 3.2524. This is an indication that SACCOs in Nairobi County have varied reasons for adopting saving mobilization.

Table 5: Reasons for adopting saving mobilization in the Sacco

| | Mean | Std. Deviation |
|---|--------|----------------|
| Improved protection of members savings | 3.5631 | 1.19369 |
| Improved credit multiplier (loan versus saving ratio) | 3.6408 | 1.17869 |
| Improved offer for ordinary shares/securities to Sacco members while competing against rivals | 3.2524 | 1.36998 |

Innovation and competitive advantage

The study sought to determine the extent to which innovation affect competitive advantage of the SACCOs in Nairobi County. The study sought to establish the extent to which innovation influence SACCOs in Nairobi County. The study found that the respondents agreed on introduction of new products as members' change as shown by the mean of 3.6117. The Nairobi SACCOs offers unique and attractive products to its members compared to others SACCOs as shown by a mean of 3.6990. The SACCOs often introduce new service delivery methods due to the demand of the members as they try to achieve members retention and growth as shown by a mean of 3.7573. In addition, the study found that most of the respondents were neutral on survival on what kind of products the SACCOs offer and how differently is offered to members compared to similar service providers as shown by a mean of 3.0388. The study also established found that other respondents disagreed that SACCO members sometime leave their SACCO to join other SACCO as shown by a mean of 2.4951. This confirms a study by Tellis et al., (2009) who confirmed that organizations competitive advantage in an organization can be achieved by through effective management of today's innovation and the creation of tomorrow's innovation.

Table 6: Agreement level with statement on innovation in the Sacco

| | Mean | Std. Deviation |
|---|--------|----------------|
| Sacco introduces new products as members needs change | 3.6117 | 1.06856 |
| Unique And Attractive products | 3.6990 | 1.26673 |
| New Method of service delivery | 3.7573 | 1.24038 |
| Survival depend on the kind of product offered | 3.0388 | 1.39974 |
| Members sometime leave our Sacco to join other SACCOs | 2.4951 | 1.12785 |

Evaluation of competitive advantage

The study sought to establish the extent to which SACCOs evaluate competitive advantage in Nairobi County. Table 7 the study sought to establish the trend of the SACCO's competitive advantage in the business for the last three years. According to the findings the respondents strongly agreed that SACCOs have grown its market share as shown by mean 4.5049. In addition the respondents agreed that, over the last three years SACCO movement has grown in terms of membership, reputation, service delivery processes and performance as shown by a mean of 3.9417, 3.5146, 4.1650 and 3.8641 respectively. This portray that most of the respondents were in agreement that the growth in market share, growth in terms of membership, improved reputation, improved service delivery process and better performance than its closest competitors are used by the SACCOs to measure competitive advantage.

Table 7: Trend of Sacco competitive advantage in the business for the last three years

| | Mean | Std. Deviation |
|---|--------|----------------|
| Grown its market share | 4.5049 | .60834 |
| Experienced growth in terms of membership | 3.9417 | 1.16169 |
| Improved its reputation | 3.8641 | 1.46772 |
| Improved its service delivery process | 3.5146 | 1.10344 |
| Performed better than its own closest competitors | 4.1650 | 1.16357 |

Inferential Analysis

The averages from the primary data collected on the five(5) on the dependent variable (Competitive advantage) and the four (4) independent variables (access to funds, operational risk management, saving mobilization and innovation) was used to further compute correlation, ANOVA, coefficient of determination and model summary.

Correlation Analysis

The study sought to establish the relationship between the dependent variable (competitive advantage) and the independent variables (access to funds, operational risk management, saving mobilization and innovation). The researcher conducted a Pearson moment correlation in order to determine the correlation of the study variables. The findings in table 4.13 showed that access to funds have a weak positive correlation with competitive advantage as shown with a correlation value of 0.435 which is

significant at the 0.000 significant level. The table reveals that there was a weak negative correlation between operational risk management and competitive advantage as shown by a correlation figure of -0.480 which is significant at the 0.000 significant level. It was also clear that there was a weak positive correlation between competitive advantage and saving mobilization as shown by the correlation value of 0.345 which is significant at the 0.000 significant level. However, innovation proved to have a weak negative correlation with competitive advantage with a correlation value of -0.319 which is significant at the 0.001 significant level, hence the access to funds proved the most significant factor followed by saving mobilization.

Table 8: Correlation Coefficient ($\alpha=0.05$)

| | | Competitive Advantage | Access to funds | Operational risk management | Saving mobilization | Innovation |
|-----------------------------|----------------|------------------------------|------------------------|------------------------------------|----------------------------|-------------------|
| Competitive Advantage | Pearson | 1 | | | | |
| | Correlation | | | | | |
| | Sig.(2tailed) | | | | | |
| | N | 103 | | | | |
| Access to funds | Pearson | .435** | 1 | | | |
| | Correlation | | | | | |
| | Sig. (2tailed) | .000 | | | | |
| | N | 103 | 103 | | | |
| Operational risk management | Pearson | -.480** | .035 | 1 | | |
| | Correlation | | | | | |
| | Sig. (2tailed) | .000 | .724 | | | |
| | N | 103 | 103 | 103 | | |
| Saving mobilization | Pearson | .345* | .960** | .095 | 1 | |
| | Correlation | | | | | |
| | Sig. (2tailed) | .000 | .000 | .341 | | |
| | N | 103 | 103 | 103 | 103 | |
| Innovation | Pearson | -.319** | .113** | .780** | -.252* | 1 |
| | Correlation | | | | | |
| | Sig. (2tailed) | .001 | .254 | .000 | .073 | |
| | N | 103 | 103 | 103 | 103 | 103 |

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

Regression Analysis

To determine how well the model fits the data, the researcher examined the goodness fit in the model summary where S access how well the model describe the model and the lower the value of S the better the model describes the response. R-squared (R^2) also known as coefficient of determination is the response of variation in the response explained by the model. The higher the r^2 value, the better the model fits the data which is always between 0% and 100%. The adjusted R Squared compares number of predictions in the model. While the std. Error of the estimate also called the mean square error measures accuracy of the predictions.

From the model summary, the R square (coefficient of determination) is a commonly used statistics to evaluate model fit. R-square is 1 minus the ratio of residual variability. The results of the regression analysis in table 4.16 indicate that R^2 was .461 or 46.1 % .This shows that the four independent variables (access to funds, operational risk management, saving mobilization and innovation) of the study explain only 46.1 % of the changes in the dependent variable (Competitive advantage). Other variables not in the study contribute to the remaining 53.9% of the changes in competitive advantage in the licensed SACCOs in Nairobi County. The statistical model shows that when the independent variables (access to funds, operational risk management, saving mobilization and innovation) and dependent variables (competitive advantage) interact, the model has a correlation coefficient (R) of 0.679 and co-efficient of determination (R-square) of 0.461signifying a positive relationship between two variables.

Table 9: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .679 ^a | 0.461 | 0.439 | .75815 |

a. Predictors: (Constant), Access to funds, Operational risk management, Saving mobilization, Innovation

The analysis of variance (ANOVA) test shown in the table 10 was used to test the significance of the regression model adopted in the study. The result of the ANOVA test showed an F-statistic of 20.756 which was statistically significant at 0.000 ($p < 0.05$) indicating that the regression relationship was highly significant predicting how access to funds, saving mobilization, operational risk management and innovation influenced competitive advantage of SACCO's in Kenya. The F critical at 5% level of significance was 20.756 since F calculated is greater than the F critical (value=2.465), this shows that the overall model was significant and that, the variable tested fitted well in the model.

Table 10: Analysis of Variance (ANOVA)

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|--------|-------|
| 1 | Regression | 47.908 | 4 | 11.977 | 20.756 | .000a |
| | Residual | 56.549 | 98 | .577 | | |
| | Total | 104.457 | 102 | | | |

a. Predictors: (Constant), Access to funds, Operational risk management, Saving mobilization, Innovation

b. Dependent Variables: Competitive Advantage

Regression coefficients tell the structure of the model and the relationship between competitive advantage and the four predictive variables. It involves coefficient determination and multiple regression analysis. Model shows the predictors used in the equation. The unstandardized variables (B) are values for the regression equation for predicting the dependent variables from the independent variable and are measured in their natural units. The standard error which is associated with the coefficients is used for testing whether the parameter is significantly different from 0 by dividing the parameter estimate by the standard error to obtain a t-value as indicated in see the column with t-values and p-values. The standardized coefficient (Beta) is the coefficients that researcher would obtain if standardized all of the variables in the regression, including the dependent and all of the independent variables, and ran the regression.

Based on the coefficients of regression, which explains the extent to which changes in the dependent variable can be explained by the change in the independent variables, and the regression model that is final can be modeled as:

$$Y = 2.302 + 0.989 X_1 - 0.444 X_2 + 0.454 X_3 + 0.082 X_4 + e$$

From the findings of the regression analysis if all factors (access to funds, operational risk management, saving mobilization and innovation) were held constant, the competitive advantage of the SACCOs will be at 2.302. Their relative importance to competitive advantage is indicated as access to funds ($\beta=0.823$), operational risk management ($\beta=0.724$), saving mobilization ($\beta=-0.386$) and innovation ($\beta=0.211$). It is evident from these results that access to funds and innovation had the greatest influence on competitive advantage while saving mobilization and operational risk management had the least effect on competitive advantage of deposit taking Saccos in Kenya.

Table 11: Coefficients

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|-----------------------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 2.302 | .407 | | 6.675 | .000 |
| Access to funds | .989 | .266 | 1.009 | 3.717 | .000 |
| Operational risk management | -.444 | .102 | -.518 | -4.351 | .034 |
| Saving mobilization | .454 | .211 | -.588 | 2.147 | .000 |
| Innovation | .082 | .132 | .075 | .623 | .535 |

a. Dependent Variable: Competitive Advantage

Conclusion

The study concludes that access to funds has a strong positive relationship with competitive advantage of listed SACCOs in Nairobi County. This implies that if the SACCOs embrace access to funds, it will enhance and sustain its competitive advantage. This will be possible by ensuring that its members can access their finances easily.

The study concludes that operational risk management is a significant factor that negatively affects competitive advantage of SACCOs in Nairobi County. This implies that even if the SACCOs embrace operational risk management, there will be some effect on its competitive advantage by outsourcing certain aspects like technology, insurance policy and have in place an internal risk auditor which is vital to risk management.

The study concludes that saving mobilization affect the competitive advantage of Saccos in Nairobi County. The study concludes that saving mobilization is a significant factor that affects competitive advantage positively. This implies that saving part of its resources a SACCO makes it less competitive. This is because the more as SACCO is endowed with funds; the more it will attract members. Saving means fewer funds to members for borrowing. Even if the SACCOs embraces saving mobilization, there will be some effect on its competitive advantage. In cases of defaulters, recovery isn't easy hence performance and competitive advantage of the SACCO is retarded.

The study concludes that innovation was insignificant factor that affects competitive advantage positively. This infers that if the SACCOs embrace innovation, it will not enhance its competitive advantage. In order for any given business unit or company to meet the corporate goals, it is imperative

that the existing members must be retained or the number increased for innovation to boost competitive advantage.

Recommendations

The study recommends that Sacco leadership to ensure funds accessibility to its members by making the financial services affordable and easily accessible. By so doing the customers will not shy away from the offer. Also SACCO's officials need to embrace mobile banking to enhance competitive advantage of the SACCOs. The SACCOs can also involve in income generating activities like real estate.

Operational risk management can only enhance competitive advantage if the SACCOs have in place risk and internal audit team for enhancing financial controls and management of risk. In addition, there is need to outsource certain aspects of their business activities which are not core in their business to reduce risk of funds lose. Outsourcing certain aspects of the business such as technology and development of specialized products will also protect the SACCO against direct financial losses. Operational risk management can also enhance competitive advantage if standardized reports are made that track enterprise risks improving the focus of directors and executives by provision of data that can help in making of better risk mitigation decisions. The data variety (mitigation strategies, risk indicators statues, new and emerging risks) help the leadership understand the areas of risks that are more important. Such reports also assist leaders develop a more varied understanding of risk thresholds, risk appetite and risk tolerances.

The study recommends that SACCOs should maintain large volume of members' transaction through Savings mobilization. SACCO directors need to improved protection members savings that is savers can place their deposits and will receive the full value of their fund plus a real return upon withdrawal, Sacco should provide new ordinary shares and new credit multiplier to their clients . And this will enhance competitive advantage if there is proper administration of the funds besides severe punitive measures for debt defaulters and embezzlers. The SACCOs should involve in training activities where members of public can be informed of the benefits accrued to saving in SACCOs.

The study recommends that for the SACCOs to be successful and competitive need to come up with innovative ways of enhancing their products. SACCOs need to adopt new technology to create new products and services as members' needs change. SACCOs needs to maintain a large volume of member transactions this motivate customers no to leave to other SACCOs. Due to the high competition, this can only be done if the SACCOs services are continually improved and sold at competitive prices. Improved services can mean expansion of the products and services range while improving the existing services delivery.

Suggestions for Further Research

The research was confined to the licensed SACCOs in Nairobi County and the specific objectives and so the researcher was not able to cover all other areas and variables. The study focused on factors influencing competitive advantage of SACCOs in Nairobi County. There is therefore need for further research on SACCOs outside Nairobi so that the findings can be generalized to apply to all SACCOs (rural and urban) in Kenya. The study suggests that further research be done on the factors affecting sustainable competitive advantage of SACCOs within Nairobi county.

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