



EFFECT OF LOW-COST STRATEGY ON THE FINANCIAL PERFORMANCE OF SACCO'S IN NAROK TOWN, KENYA

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ABSTRACT

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Developing Savings and Credit Cooperatives (SACCOs) in Kenya has proven remarkably fruitful. Recognized by the World Council of Credit Unions as the most robust in Africa and the seventh fastest-growing globally, Kenya's SACCO sector has witnessed a surge in participation, resulting in heightened competition. Although past studies have delved into the impact of low-cost strategies on SACCOs' financial performance, research specifically centered on Kenyan SACCOs are still limited. In response to this gap, this study sought to investigate the influence of low-cost strategies on the financial performance of SACCOs in Narok Town, guided by Michael Porter's theory. Employing a descriptive research design, the study focused on ten registered SACCOs in Narok Town, Kenya, with the study's respondents comprising the board of directors and the branch managers of these SACCOs. The study used a census approach to determine a sample size of 100 respondents, and data analysis encompassed both descriptive and simple linear regression model. The results indicated that low-cost strategies have an effect on financial performance of SACCOs in Narok Town. It was concluded that low-cost strategies manifested interest rates, operation efficiency, low transactional cost, economy of scale plays a critical role in augmenting the financial performance of SACCOs in Narok Town. Hence it was recommended that...to enhance the financial performance of SACCOs in Narok town there is need to embrace low cost strategies.

KEYWORDS: *Savings and Credit Cooperatives (SACCOs), World Council of Credit Unions, Low-cost strategies, financial performance and Michael Porter's forces.*

1.1 INTRODUCTION

Savings and Credit Cooperatives (SACCOs) have emerged as crucial actors in the global financial landscape, especially in economies like Kenya, providing accessible financial services to a significant portion of the population (Ntuite, 2022; Onsase et al., 2017). The World Council of Credit Unions' recognition of the Kenyan SACCO sector solidifies its vital role in fostering financial inclusion and propelling economic growth, highlighting its notable status as the seventh fastest-growing segment globally (Mathuva & Kiweu, 2016).

Globally, the World Council of Credit Unions' recent report emphasizes the pivotal role of credit unions in empowering the financially vulnerable, underscoring the impact of credit unions and financial cooperatives worldwide (WOCCU, 2023). Studies from various regions such as Western Europe, Latin America, Austria, and the United States highlight the diverse strategies adopted by SACCOs to remain competitive, including monitoring liquidity risk, product differentiation, and technological innovation (Baroto, 2021; Dhar, 2021; Yildirim and Philippatos, 2007; Courey and Hahn, 2019).

In Africa, particularly in countries like Ghana, Tanzania, and Uganda, have shown considerable growth and

impact, contributing significantly to the financial stability and livelihoods of the local communities (Collis & Anand, 2019; Klinkhamer, 2012; Auditor, 2016). Tanzania's SACCOs, for instance, have implemented low-cost strategies to amass shares and provide affordable financial services to their members, although challenges related to governance and financial management persist (Matiku et al., 2021; Maghimbi, 2016).

In Kenya, SACCOs have played a critical role in mobilizing savings and disbursing substantial loans that have significantly contributed to the growth of small and medium-sized enterprises (SMEs), underscoring the need for robust financial performance (Central Bank of Kenya, 2021; Development Bank Group, 2020). The implementation of low-cost strategies within Kenyan SACCOs has shown a direct correlation with improved financial stability and enhanced competitiveness, pointing to the necessity of comprehensive research to address the specific challenges and opportunities within the Kenyan context (Kipai, Guda & George, 2022; Kibanga, 2019; Agutu, 2021).

Considering the extensive research gap in the understanding of competitive strategies within SACCOs, it is crucial to investigate the impact of these strategies on the financial performance of SACCOs in Kenya, with a focus on addressing the unique challenges and dynamics that are specific to the Kenyan financial sector (Kipai, Gudda & George, 2022; Onsase et al., 2017). This research therefore aimed at providing valuable insights to guide SACCO management in Kenya in making informed decisions especially on the use of low-cost competitive strategies, ultimately boosting their financial performance and sustainable economic growth within the Kenyan economy.

1.2 Statement of the Problem

Businesses should thrive by embracing evolving strategies, adapting to dynamic environments, and outperforming competitors (Ntuite, 2022). In today's hypercompetitive business landscape, strategic management becomes a critical determinant of an organization's success as it guides decision-making and contributes significantly to maintaining a competitive edge (Onyango, 2011; Porter, 2011). However, the situation presents a complex challenge for Kenya's Savings and Credit Cooperative Societies (SACCOs) as they face intense competition from traditional banks, mobile banking apps, and microfinance institutions (Onyango, 2011). In response to this competition, they have increasingly resorted to employing low-cost strategies to offer various distinct products at minimal costs. The aim is to enhance service delivery, meet customer expectations, and adapt to diverse market

needs (Ntuite, 2022). Despite these efforts, SACCOs continue operating in a dynamic and highly competitive financial industry. To enhance their financial performance, they have ventured into low-cost strategies with the potential to secure a sustainable competitive advantage, boost profitability, and benefit shareholders (Aoko & Karugu, 2020; Wangui & Nzuki, 2021). However, the actual effect of these strategies remains to be determined. Studies in Kenya have yielded mixed results (Kipai, Gudda and Rukaria, 2020; Agutu, 2021; Ntuite, 2022; Onyango, 2011). Moreover, it is noteworthy that the focus on low-cost strategy is scarcely employed by SACCOs in Kenya, with most SACCOs opting for Traditional methods such as price discrimination and market segmentation, which have shown minimal effects on performance, as indicated (Wangui & Nzuki, 2021). Failure to embrace competitive strategies can lead to low sales, affecting profitability, per Porter's classic work (1980). Additionally, some SACCOs have struggled with strategy formulation and implementation, resulting in liquidation and government-issued license revocations (Agutu, 2021). Therefore, there is a compelling need for an empirical study to address this significant need for SACCOs to survive in the current competitive business environment. This research aimed to bridge this knowledge gap by looking at the effect of low-cost competitive strategies on the financial performance of SACCOs in Kenya using a case of SACCOs in Narok town, Kenya.

1.3 Objective of the Study

To evaluate the effect of low-cost strategy on the financial performance of SACCOs in Narok town, Kenya.

1.4 Research Hypothesis

H₀: There is no significant effect of low-cost strategy on the financial performance of SACCOs in Narok town, Kenya.

2.0 LITERATURE REVIEW

2.1 THEORETICAL REVIEW

2.1.1 Competitive Advantage Theory

This theory was proposed in 1985 by a famous scholar, Michael Porter (Porter, 1985). According to Porter (1985), the essence of competitive advantage lies in a firm's capacity to deliver value to its customers, surpassing the cost incurred in providing it. This value proposition can manifest in two primary ways: firstly, by offering lower prices compared to competitors for an equivalent bundle of benefits, or secondly, by providing unique benefits that far exceed the justifiably higher price (Munene, 2016). Porter's comprehensive theory encompasses three fundamental strategic avenues: 'cost leadership,' 'differentiation,' and 'focus.' He underscores that firms should consciously pursue low-cost or

differentiation strategies to avert the perilous scenario of being "stuck in the middle" (Porter, 1980). Furthermore, Porter (1996) posits that companies can attain remarkable success by adroitly blending various combinations of these strategies.

Studies substantiate and fortify the arguments posited by Porter's theory. For instance, research conducted by Anderson (2018) and Hernandez (2020) corroborates the assertion that firms prioritizing cost leadership tend to yield enhanced financial performance. Similarly, a comprehensive study by Mitchell and Turner (2019) underscores the substantial advantages of differentiation strategies in augmenting competitiveness and boosting overall financial performance.

However, it is imperative to acknowledge that Porter's theory is not without its limitations and critiques. Detractors argue that it simplifies the intricate landscape of competitive dynamics and assert that the strategic terrain extends beyond the constraints of these three distinct strategies ((Taylor, 2017; Collins, 2019). Moreover, certain comprehensive studies, such as the examination by Reed (2021), have criticized the theory for omitting external factors and uncontrollable market

variables that significantly influence the formation of competitive advantage.

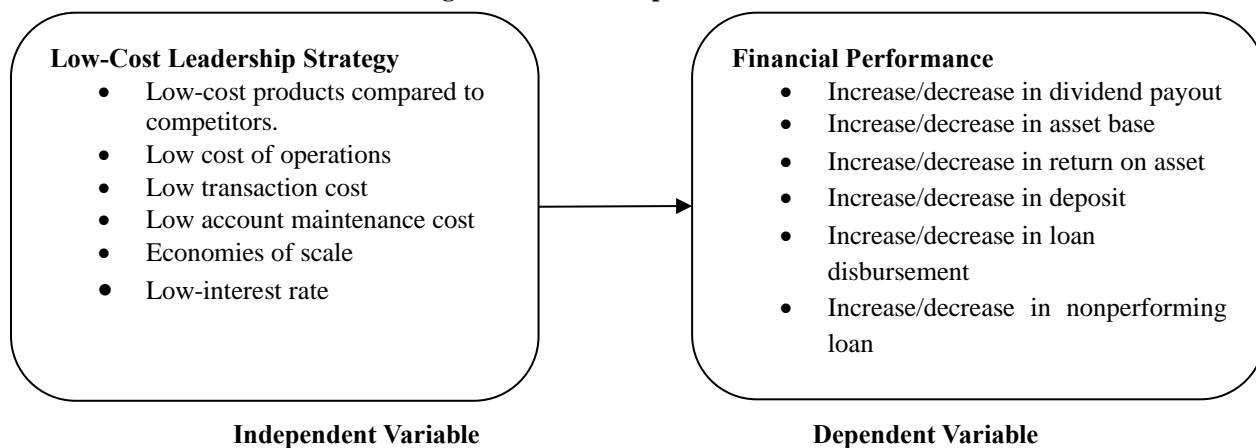
In the specific context of this study, which meticulously scrutinizes the influence of competitive strategies on the financial performance of Savings and Credit Cooperatives (SACCOs) in Kenya, Michael Porter's theory furnished an indispensable theoretical framework. It enabled a methodical and structured analysis of competitive strategies and their potential impact on the financial outcomes of SACCOs. This theoretical underpinning paved the way for a comprehensive examination of how cost leadership, differentiation, and focus strategies could influence the financial performance of these pivotal financial institutions.

2.2 The Conceptual Review

Low cost strategy and financial performance

The conceptual review of this study was based on the conceptual framework shown in (Figure 1), with low-cost leadership strategy as the independent variable and financial performance as the dependent variable.

Figure 1: The Conceptual Framework



**Source (Author,2023)
Low-Cost Leadership Strategy and Financial Performance**

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

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

their financial performance by pricing products and services more competitively.

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

The low-cost strategy contributes to reducing transaction costs. Literature in transaction cost economics (Williamson, 2019) emphasizes that organizations adopting low-cost practices can streamline their transactional processes, leading to cost savings. Reduced transaction costs translate to higher financial performance by minimizing expenditures, a benefit observed in various industries, SACCOs being no exception.

Low account maintenance costs represent another critical element within the low-cost strategy. Studies (Smith & Jones, 2020) have consistently shown that organizations that provide cost-efficient account maintenance can attract and retain more customers, a view echoed by Kipai, Gudda and George 2022, while studying SACCOs in Narok Town noted that membership size has a significant effect on financial performance.

Low interest rates are a hallmark of the low-cost strategy. Organizations can attract borrowers and depositors by offering credit and financial services at more affordable interest rates. This, in turn, leads to increased interest income and more stable financial performance. Research on banking and finance (Guttentag, 2020) has highlighted the positive correlation between low interest rates and an organization's financial performance. This is critical in SACCOs operations as members make decisions to access financial services from the SACCOs since their charges and interest rates are more often than not lower than other financial services providers.

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

2.3 Empirical Review

Kurt and Zehir (2016) embarked on a comprehensive investigation that took them on a journey through the intricacies of the cost leadership strategy, the application of total quality management (TQM), and the financial performance of micro, small, and medium-sized firms in İstanbul and Gebze, Turkey. Their methodological approach was robust and meticulous, involving collecting data from 600 middle and high-level managers and directors through thoughtfully constructed questionnaires. Their rigorous data analysis revealed a compelling narrative: the cost leadership strategy exerts a positive and statistically significant influence on financial performance. Adding complexity and intrigue to this narrative was the pivotal role played

by TQM techniques in mediating this connection. While this study undeniably opened a window into a promising area of research, it left a crucial avenue unexplored - the specific factors that mediate this relationship. Hence, this study aimed to delve deeper into this strategic interplay, seeking a more profound understanding of its nuanced facets.

Kharub et al. (2018) embarked on a research journey through the landscapes of Himachal Pradesh, India, with the intent to investigate the subtle interplay between the cost leadership strategy, competitive strategy, and the performance of Micro, Small, and Medium Enterprises (MSMEs). Their survey research approach allowed them to glean insights from 381 respondents, achieving an impressive 65.1 per cent response rate. Nevertheless, the findings of their study presented a somewhat unexpected narrative: a lack of direct and substantial association between the cost leadership competitive strategy and company performance within the context of MSMEs. This narrative does more than merely outline a curious observation; it laid the foundation for future research to dissect and decode how competitive strategies, particularly cost leadership, influence the performance of these unique entities, a gap that this study aimed to fill.

Kahingo and Waithaka (2018) ventured into the realm of Microfinance Institutions (MFIs) in Murang'a County, aiming to shed light on the impact of the cost leadership strategy on their sustainability. Their descriptive survey approach, engaging with the top management of these MFIs, revealed a significant revelation: Cost leadership wields a substantial influence on the sustainability of MFIs. Nevertheless, this valuable revelation has left the door ajar for further exploration. The study refrained from delving into the specific mechanisms or operational strategies that contribute to sustainability within the cost leadership approach. This oversight creates an enticing opportunity for in-depth research to uncover the intricacies that make the cost leadership strategy a cornerstone of sustainability in the microfinance sector, a gap that this study aimed to address.

Nyachwaya and Rugami (2020) shifted their focus to the sun-kissed shores of Mombasa County, Kenya, intending to explore the impact of competitive tactics on the performance of commercial banks. Engaging with 280 employees through a descriptive survey approach, their findings illuminated a relationship between competitive tactics and performance. In this intriguing narrative, the cost leadership strategy emerged as central, boasting the highest mean. However, the study should have ventured into a deeper analysis of the specific operational tactics that underpin this

relationship. Consequently, it beckoned for future research to scrutinize the strategies fueling commercial banks' remarkable financial performance, paving the way for this study to dive into this vital area.

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

3.0 METHODOLOGY

3.1 Research Design

The research employed a descriptive survey design to understand the characteristics, competitive strategies, and financial performance of Savings and Credit Cooperative Societies (SACCOs) in Narok Town (Elahi & Dehdashti, 2011).

3.2 Population

A study population is "the aggregation of all the elements, individuals, or objects to which a researcher

wishes to generalize the findings of a study" (Creswell, 2014). For this study, the population comprised of all categories of SACCOs in Kenya, with a particular focus on SACCOs in Narok town as the accessible subset for the purposes of this study.

3.2.1 Target population and sampling procedure

The target population comprised ten actively operating SACCOs, and a census approach was used for comprehensive examination (Johnson & Christensen, 2020). Data was collected through a self-administered structured questionnaire using a 5-point Likert scale for higher response rates and varied response measurement (Johnson & Brown, 2021; Adams & Wilson, 2020).

3.3 Data Analysis

Data analysis involved descriptive statistics, which included percentages, frequencies, means, and standard deviations to summarize the dataset. Subsequently, a simple linear regression model was employed to explore the relationships between low-cost strategy and the financial performance of SACCOs.

4.0 RESULTS

4.1 Results on descriptive statistics on low cost strategy ratings

Respondents assessed their level of agreement or disagreement with low-cost strategies statements using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Descriptive statistics were computed, and the results are presented Table 4.

Table 2 Descriptive statistics on low cost strategies

Low-Cost Strategy	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
1. Cost of products and services	1	(1.3)	8	(10.0)	27	(33.8)	36	(45.0)	8	(10.0)	3.525	0.856
2. The low cost of operation	2	(2.5)	6	7.5)	39	(48.8)	30	(37.5)	3	(3.8)	3.325	0.775
3. The transaction costs have been reducing	2	(2.5)	10	(12.5)	31	(38.8)	31	(38.8)	6	(7.5)	3.362	0.889
4. There is low account maintenance	2	(2.5)	3	(3.8)	25	(31.3)	33	(41.3)	17	(21.3)	3.75	0.920

Source: (Research data,2023)

Key: F=Frequency, SD=standard deviation

The results in Table 4 reveals that 1 (1.3%) strongly disagreed, 8 (10%) disagreed, 27 (33.8%) maintained a neutral stance, 36 (45%) concurred, and 8 (10%) strongly concurred, resulting in an average score of 3.525 and a standard deviation of 0.85647. These results imply that most respondents had mixed views regarding the costs of products and services in SACCOs compared to their competitors. It suggests that SACCOs in Narok

Town prioritize maintaining competitive prices while ensuring their offerings are priced lower than their competitors. These findings align with Thompson et al. (2015), emphasizing that a low-cost provider strategy presents costs lower than competitors rather than necessarily the lowest prices. Similarly, David (2011) notes that low-cost strategies may not guarantee a sustained competitive advantage when easily replicable,

emphasizing the importance of outperforming the competition rather than focusing solely on offering the absolute lowest prices.

Regarding the impact of low-cost operational strategies on the financial performance of SACCOs, 2 (2.5%) of the respondents strongly disagreed, 6 (7.5%) disagreed, 39 (48.8%) adopted a neutral position, 30 (37.5%) expressed agreement, and 3 (3.8%) strongly agreed, producing an average score of 3.325 and a standard deviation of 0.77582. These results imply a considerable reliance on the flexible nature of decision-making within SACCOs, allowing them to adapt their strategies based on various internal and external factors. This adaptability aligns with the principles of contingency theory. Chen and Zhang's (2018) study supports this view, emphasizing the importance of a contingency approach to decision-making in enhancing organizational performance. However, Weber and Tarba (2014) argue that contingency theory might oversimplify organizations' complex dynamics and environments, potentially limiting its applicability in guiding organizational strategies.

Examining whether SACCOs have reduced transaction and maintenance costs, 2 (2.5%) of the respondents strongly disagreed, 10 (12.5%) disagreed, 31 (38.8%) remained neutral, 31 (38.8%) agreed, and 6 (7.5%) strongly agreed with the statement, resulting in an average score of 3.362 and a standard deviation of 0.889. These results acknowledge the multifaceted nature of managing transaction and maintenance costs, contingent

on various external factors such as regulations and taxes. The findings agree with Beasley and Frigo's (2017) emphasis on the significance of strategic cost management in achieving long-term organizational success. However, Demski and Feltham (2018) argue that while reducing transaction costs can be beneficial, it may only sometimes lead to significant financial gains, especially with a broader strategic approach.

Addressing the aspect of SACCOs achieving economies of scale, 2 (2.5%) of the respondents strongly disagreed, 3 (3.8%) disagreed, 25 (31.3%) remained neutral, 33 (41.3%) agreed, and 5 (6.3%) strongly agreed with the statement, resulting in an average score and standard deviation of 3.4625 and 0.79466, respectively. These results imply a recognition of the complex dynamics associated with achieving economies of scale, which may be a challenging process for all SACCOs in Narok Town. This finding aligns with the study by Wang and Tong (2015), suggesting that economies of scale can improve financial performance by reducing costs and increasing efficiency. However, it differs from Miller and Reuer's (2015) argument that decreasing transaction costs can diminish the significance of economies of scale, potentially altering the competitive dynamics in the industry.

The data was subjected to further scrutiny through Pearson's Correlation analysis to determine whether a correlation existed between low-cost strategy and the financial performance of SACCOs in Narok town. The results are presented in Table 4.2.

Table 3 Pearson’s Correlation Analysis Between Low–Cost Strategy and Financial Performance

		Financial performance
Low-cost strategy	Pearson Correlation	.729**
	Sig. (2-tailed)	.000
N		80

Source, (Field Data,2023)

*. Correlation is significant at the 0.05 level (2-tailed). The results in Table 4.2 show a strong positive and statistically significant correlation ($r=0.729$, $p =0.000$) between low–low–cost strategy and the financial performance of SACCOs in Narok Town. This means a low-cost strategy is necessary for enhanced financial performance among SACCOs in Narok town. These findings agree with Wang and Tong (2015), who found a positive and significant relationship between low-cost strategy and financial performance of SACCOs. On the contrary, the findings differ from those of Miller and Reus (2015), who did not realize any relationship

between low–cost strategy and financial performance of SACCOs.

The study further sought to determine the effect of low-cost strategy on the financial performance of SACCOs in Narok town. To achieve this, the study tested the null hypothesis, which stated:

H₀: The low-cost strategy does not significantly affect the financial performance of SACCOs in Narok town.

The analysis was done using simple linear regression, shown in Table. 4.3

Table 4 Regression Coefficients result of Low cost-strategy against financial performance

R ²	β	F	t	p
.561	.255	438.996	13.316	0.000

Source (Field Data,2023).

Results in Table 5 presents a regression model that demonstrates satisfactory goodness of fit, revealing the relationship between low-cost strategy and the financial performance of SACCOs in Narok Town. The R² value of 0.561 signifies that approximately 56.1% of the variance in financial performance can be attributed to the low-cost strategy employed by these SACCOs. Notably, the low-cost strategy holds significant sway over financial performance, as indicated by the F-value of 438.996 ($p < 0.05$). The null hypothesis, which suggested that the low-cost strategy has no substantial effect on the financial performance of SACCOs in Narok Town, Kenya, was soundly rejected. This is further supported by the t-value of 13.316, which surpasses the critical threshold and a P value below 0.05.

These results emphasize the pivotal role of a low-cost strategy in influencing the financial performance of SACCOs in Narok Town. This finding aligns with a study by Thompson et al. (2015), which underscores the significance of a low-cost provider strategy in achieving a competitive edge and improved financial performance. Thompson et al. (2015) argue that a well-executed low-cost strategy allows SACCOs to present their products and services at competitive prices, thus attracting more members and increasing profitability.

Nevertheless, these results contrast David's study (2011), which argued that low-cost strategies may not guarantee a sustained competitive advantage when easily replicable. While David (2011) does acknowledge the importance of cost efficiency, other factors and strategies should complement low-cost approaches to achieve enduring financial performance. These contrasting views highlight the ongoing debate within strategic management about the role of low-cost strategies in organizations and their impact on financial performance.

5.0 CONCLUSION AND POLICY IMPLICATIONS

5.1 Conclusion and Recommendation

It was concluded that low-cost strategies play a critical and significant role in augmenting the financial performance of SACCOs in Narok Town. hence it was recommended that...to enhance the financial performance of SACCOs in Narok town need to embrace low cost strategies through implementing

operational efficiency, managing transaction expenses, and achieving economies of scale and ultimately boost the financial performance of these cooperatives.

In light of these results, several recommendations are proposed to enhance the implementation of low-cost strategies further and improve the financial performance of SACCOs in Narok Town. Firstly, it is recommended that SACCOs prioritize adopting innovative technologies and digital solutions to streamline their operations and reduce costs. This can involve leveraging digital platforms for member engagement, enhancing online transaction capabilities, and implementing automated processes to improve operational efficiency and cost-effectiveness.

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