

# Effect of Service Quality on Competitive Strategy in Deposit Taking Savings and Credit Co-Operatives in Kericho County, Kenya

Korir Anthony

Kenya Methodist University and Cherono Vivian, Kenya Methodist University

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**Abstract:** In Kenya, deposits taking SACCOs operate in a competitive banking industry dominated by well-established mainstream commercial banks and other financial service providers. Porter's five forces industry model is applicable especially to the threats of substitute in analyzing the competitive environment. The purpose of the study was to assess the effect of service quality on competitive strategy in deposit taking savings and credit co-operatives in Kericho County, Kenya. In particular, the study examined the effect of tangibility, responsiveness, assurance, empathy and reliability on competitive strategy. The target population in this study comprised of management staff drawn from five deposit-taking SACCOs in Kericho County constituting the accessible population. The study adopted the descriptive research design. The target population comprised population of 184,921 SACCO members and 25 management staff from which a sample of 96 SACCO members and 25 management staff was drawn. Stratified random sampling and simple random sampling techniques were used in the selection of the study sample. The study used a structured questionnaire and an interview schedule in data collection. Both descriptive and inferential statistics were employed in the analysis using SPSS. Descriptive statistics comprised measures of distribution (frequencies and central tendencies), measures of central tendencies (means) and measures of variation or dispersion (standard deviations). Inferential statistics constituted Pearson's correlation and Regression analysis. The findings show that all the five dimensions of service quality studied had a significant effect on competitive strategy employed by the SACCOs. The study recommended that SACCO management consider, scaling up the quality of products and service; conducting further investigations before competitive strategy formulation, to better understand how their clients think and respond; and adopting competitive strategies that technology oriented and up to date. The management also needs to up their game in strategy formulation and implementation and look beyond their ilk especially when formulating competitive strategies.

**Keywords:** Service Quality, Competitive Strategy, Deposit Taking Savings and Credit Co-Operatives.

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## 1. BACKGROUND INFORMATION

Competition has proved to be a critical force in the operation of various organizations regardless of their industry of belongingness. Although there are various tools for analyzing the competitive environment such as the Five forces analysis, Game plan, Value Chain model, PESTEL model and the Strategic group analysis (Indiatsy, Mwangi & Mandere, 2014; Lumpkin *et al.*, 2005), the researcher chose the Five forces analysis model due to the role played by these five forces in Cooperatives. Among the various strategic analysis tools, Porter's Five Forces Model has been perceived as the best. Porter's five forces framework, is used for strategic industry analysis. (Wilkinson *et al.*, 2013). Its application and relevance to Savings and Credit Cooperatives (SACCOs), has been demonstrated in past studies, globally (Indiatsy, Mwangi and Mandere, 2014).

Savings and Credit Cooperative is a financial cooperative defined as autonomous association of persons united voluntarily to meet the common economic, social and cultural needs of the group members, through a jointly owned and democratically controlled enterprise (Mishkin & Eakins, 2011). Worldwide, there are currently 750,000 cooperatives with 760 million members in more than 100 countries (McDaniel & Gitman, 2008). The history of SACCOs in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, particularly in Great Britain and France. The modern history of cooperatives started with the Rochdale Society of Equitable Pioneers, founded in 1844 (Assenga, 2008). Cooperatives existed in Africa, before the advent of colonialism, saving associations known by different names such as 'ekub' in Ethiopia, 'sanduk' in Sudan, 'esusu' in Nigeria and 'chilimba' in Zambia (Karagu, 2013). Many of the first savings and credit cooperatives emerged in the English-speaking countries, primarily in Ghana 1955, Uganda 1946 and in Nigeria dates back to 1951-1953 (Mbwana and Mwakujonga, 2013). In Tanzania, SACCOs emerged in 1954, in Kenya 1964, Liberia 1965, Sierra Leone, Zambia and Botswana in 1967 (MUCCoBS, 2005).

The history of cooperatives in Kenya dates back to 1908, when the first Co-operative Society was established in Kenya, a dairy Co-operative. In 1931 the government of Kenya's first formal involvement in Cooperatives when the first Co-operative Ordinance was enacted to regulate the operations of co-operatives (Churck, 2015). Currently, there are two types of SACCOs in Kenya and these are that Non-Deposit taking Saccos and The Deposit Taking Saccos (Nthimba & Jagongo, 2015). The Deposit Taking Saccos (DTS) besides the basic savings and credit products, also provide basic banking services (demand deposits, payments services and channels such as quasi banking services commonly known as ATMs), through FOSAs and are licensed and supervised under the Sacco Societies Act of, 2008 (SASRA Annual Report, 2014). Currently, there are 164 SACCOs duly licensed to accept deposit from members in Kenya. Such SACCOs include Afya Sacco, Asili Sacco, Ndege chai, Imarisha and Boresha Sacco in Kericho County (SASRA, 2014).

According to Riley (2012) today, all SACCOs compete with commercial banks producing substitute products and services because substitutes reduce the potential returns of an industry by placing a ceiling on the prices that banks in that industry can profitably charge (Riley, 2012). SACCOs must therefore carefully analyze competitors and the environment in order to develop competitive strategies to outsmart the big players through collaborating with service providers like Mobile phone service providers or asset companies. Among the strategies employed by SACCOs is service quality oriented strategy (Sagwa & Kambu, 2016).

Savings and Credit Cooperative Societies (SACCOs) will continue to play a vital role towards the realization of Kenya Vision 2030 (Owino, 2011). The main SACCOs in Kericho County of Kenya are agro-based, that is the members are mainly employees in the Agricultural sector. Agriculture is the major economic activity in Kericho County, and the leading cash crop is tea production. There are five deposit taking SACCOs in the county, and these are Imarisha, Ndege Chai, Highlands, Simba Chai and Patnas, and these were the focus of this paper. They compete among them and among other players in the industry.

#### **Statement of the Problem:**

Despite the important role played by SACCOs in the economy of Kenya, empirical investigation on the influence of service quality on competitive strategy particularly in deposit taking SACCOs is very limited in Kenya. Considering the fact that service quality can affect either positively or negatively the competitive strategy employed, a study in the vibrant SACCOs of Kericho County is necessary. In Kericho County, there are limited studies linking service quality dimensions such as tangibility, responsiveness, assurance, empathy and reliability with competitive strategy.

#### **Purpose of the Study:**

The purpose of the study was to assess the effect of service quality on competitive strategy in deposit taking savings and credit co-operatives in Kericho County, Kenya.

#### **Specific Objectives:**

The study was guided by the following specific objectives.

- i. To determine the effect of tangibility on competitive strategy in deposit taking savings and credit co-operatives in Kericho County.

- ii. To establish the effect of responsiveness on competitive strategy in deposit taking savings and credit co-operatives in Kericho County.
- iii. To determine analyze the effect of assurance on competitive strategy in deposit taking savings and credit co-operatives in Kericho County.
- iv. To establish the effect of empathy of substitutes on competitive strategy in deposit taking SACCOs in Kericho County.
- v. To establish the effect of reliability of substitutes on competitive strategy in deposit taking SACCOs in Kericho County.

#### Research Hypotheses:

The study tested the following hypothesis.

**H<sub>0</sub>:** Service Quality of product does not have a significant effect on competitive strategy in deposit taking savings and credit co-operatives in Kericho County.

## 2. LITERATURE REVIEW

#### Service Quality:

Nsiah and Mensah (2016) carried out a study on the effect of service quality on customer retention in the banking industry, in Ghana. The study established a positive correlation between the dimensions of service quality and customer retention. The results of the regression test showed that offering quality service have positive impact on overall customer retention. The research proves that empathy and responsiveness plays the most important role in customer retention level followed by tangibility, assurance, and finally the bank reliability. The research findings also indicated offering high quality service, increase customer retention, which in turn leads to high level of customer commitment and loyalty. This showed that service quality can influence on Competitive Strategies in Deposit Taking Savings and Credit Co-Operatives.

Iruguthu (2014) carried out a study on the factors that influence Customer Satisfaction in Savings and Credit Cooperatives (SACCOS) in Kenya. The findings of the study demonstrated that quality products/services influence on customer satisfaction. The majority of the respondents though satisfied with the state of products and services, they expressed their desired for a product guaranteed by collateral in addition to one on guarantors. The study also recommended that the SACCO should adopt mechanism to repay through MPESA. The implication of the author was that use of MPESA would enhance the quality of service and give the firm a competitive edge.

According Ouma, (2011) in a study on the factors affecting customer satisfaction among mobile phone users in Kisumu City. Customer service process starts with what customer thinks and what will happen or what he is to expect. It is has been generally accepted that quality means total and continuous customer satisfaction while using a product or service (Ouma, 2011). As the SACCO customer uses the service or product, this dimension changes and after the encounter becomes past experience. The customer past experience will affect what the customer expects to happen on a particular encounter. Service quality and customer satisfaction are the two core pillars in any business organization and this includes the SACCO. The service and product has to be right, reliable and delivered timely. In today's fast-pace world with intense competition, the key to sustainable competitive advantage lies in delivering high quality service or product that will in turn result in satisfied customers.

In Kenya Chepng'etich (2012) conducted a study on strategies adopted by commercial banks, in response to competitive environment. The object of the study was to point out the challenges faced by the banks in the competitive environment and to determine the strategies put in place by the banks. The commercial banks in Nakuru town were considered. The findings illustrated that banks faced a number of challenges and prime among them was the high expectation from customers. It was further established that customers bargain for high quality products and services and this necessitates that bank to invest more in provision of high quality and top-notch services in order to satisfy their customers. The move was noted to likely lower banks' profitability margin.

### 3. RESEARCH METHODOLOGY

This study adopted a descriptive research design. Descriptive designs comprise of measures of distribution (frequencies and central tendencies) and variations (mean and standard deviations) Cooper & Schindler (2001).

#### Target Population and Sampling Approach:

The target population comprised of five deposit taking SACCOs in Kericho County and these were Imarisha, Ndege Chai, Highlands, Simba Chai and Patnas from which an accessible population of 25 management staff representing the manager's office, credit /loans department, finance department, audit and FOSA section 184921 customers. The sample size of this study was calculated using a scientific formula by (Kothari, 2004) as outlined below;

$$N = \frac{Z^2 pqN}{e^2(N-1)+Z^2 pq}$$

Where:

n = is the sample size for a finite population

N= size of population which is the number of members

p = population reliability (or frequency estimated for a sample of size n), where p is 0.5 which is taken for all SACCO membership population and

p + q= 1 e: margin of error considered is 10% for this study. Z  $\alpha$  /2: normal reduced variable at 0.05 level of significance z is 1.96

According to the above formula, the sample size for all five SACCOs is:

$$\begin{aligned} n &= \frac{(1.96)^2 \times 0.5 \times 0.5 \times 184921}{(0.1)^2 (184921 - 1) + [(1.96)^2 \times 0.5 \times 0.5]} \\ &= 95.99066567 \\ &= 96 \text{ SACCO members} \end{aligned}$$

This implied that the size of the sample was equivalent to 96 respondents (SACCO members) and 25 management staff constituted the total sample for the study. All the management staff (departmental in charges) formed the study sample, thus a census approach was applied on this population category. The study employed stratified random sampling in accessing the respondents and Simple random sampling technique in the selection of the samples.

#### Data Collection:

Data was collected by collected by use of questionnaires and interview schedules. Prior to use the questionnaires were piloted, and then subjected validity checks and reliability tests. The alpha index for all sections combined for SACCO members' questionnaire was 0.752 as recommended by Sekaran (2006), and thus adapted for use. The instruments were used upon approvals and authorizations by the University. The researcher used the drop and pick technique when issuing the questionnaires to the respondents so as to give them humble time to respond to questions.

#### Data Analysis:

The collected data was categorized, edited, coded, and analyzed. Responses in the Likert scale was assigned numerical values to make quantitative analysis possible. Quantitative data was computed for descriptive statistics (frequencies, means and percentages) and inferential statistics (Regression analysis) with the aid of SPSS Version 24 and Microsoft Excel 2013, and thereafter the result presented in the form of tables and charts; cross tabulations were used to present the relationship between two variables. Regression analysis was used to establish the relationship between the independent variables and dependent variables. Descriptive statistics comprised frequencies and percentages. Inferential statistics constituted regression analysis and Pearson's correlation. The research hypotheses was tested at 95% confidence level. The results of analysis was presented in tables. The following regression model was adopted.

$$Y = \beta_0 + X_1\beta_1 + \epsilon$$

Where:

Y: Competitive Strategy

$\beta_0$ : Constant

$X_1$ : Quality of Substitutes

$\epsilon$ : Error term

$\beta_{1-4}$ : Regression Coefficients

$\alpha$  = constant. It defines the value of Y if all independent variables have a value of Zero

$\beta_1$  = Regression Co-efficient. This defines the amount, by which Y is changed for every unit change of predictor variables. The study also used non-parametric methods such as Friedman ranking test to test for differences between groups with ordinal dependent variables.

#### 4. RESULTS AND DISCUSSIONS

##### Demographic characteristics of the respondents:

The findings in show that 43.8% of the customers and 56.2% of the management staff interviewed were male, while 56% of the customers and 44% of the management staff were female. The findings show that information provided reflects the views of both gender in respect to the the the threat of substitutes on competitive strategy in Deposit Taking Savings and Credit Co-operatives in Kericho County. most of the respondents were aged between 35 and 44 years old. The study was able to capture the views from respondent across all the age brackets.

The findings also show that most of the respondent had been in the SACCO for a period between 2 years and 4 years, a period long enough to be able to appreciate the dynamics related to threat of substitutes. The findings in Table 1 show that 77.6% of the SACCO customers were satisfied with the services offered by the SACCO, 12.4% were moderately satisfied while 10.1% were slightly satisfied. This implied that majority of the members were satisfied with SACCO services

**Table 1: Members' Satisfaction with services offered by the SACCO of Choice**

Response	Frequency	Percentage
Slightly satisfied	9	10
Moderately Satisfied	11	12.4
Satisfied	53	59.6
Very satisfied	16	18
Total	89	100

Through descriptive statistics it was established that loans offered by the SACCO were used as follows: School paying fees (4.0899), savings (3.1573), buying assets (3.0562), medical bills (2.4607) and starting an enterprise (2.2472). This implied that the main areas where loans were directed to the school paying fees, savings and buying of assets. The three uses had a mean score of was above neutral mean score of 2.5. Only few members took loans for investment in enterprise startups. Most important, was that the Sacco loans taken were useful to members. This also means that SACCOS help individuals and households to meet their basic needs and protect against risk. When the households and individuals have basic needs and protected against risks, the possibility of establishing small business is great.

##### Comparing the dimensions of service quality:

Friedman ranking tests were computed basing on the responses from management staff and the results were as presented in Table 2

**Table 2: Friedman Ranking Test Results for Strategies employed by the SACCOs**

Variable	Imarisha	Ndege Chai	Highlands	Simba Chai	Patnas
Tangibility	2.10	1.80	2.40	2.40	2.70
Responsiveness	1.40	2.20	3.00	2.30	1.90
Assurance	3.10	2.00	2.30	1.90	1.50
Reliability	3.40	4.00	2.30	3.40	3.90

FR = Friedman Ranking

The findings in Table 4.7 show that the highest-ranking independent variable at Imarisha SACCO, Ndege Chai SACCO, Simba Chai SACCO and Patnas SACCO was reliability with FR score at 3.40, 4.00, 3.40 and 3.90 respectively. The highest ranking at Highlands SACCO was responsiveness with FR value of 3.00. Tangibility was the second best in Patnas, and Simba Chai, while assurance was second best in Imarisha. From the results we note that all the SACCOs had adopted a mixture of strategies, and that the performance of these strategies varied from firm to firm. Basing on the results in Figure 1, reliability is the best-ranked variable, except for Highlands SACCO. This therefore means that Highlands SACCO need to up their game in respect to reliability.

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#### Descriptive Statistics for Service Quality – Customers Viewpoint:

The findings show that the statements recorded the following mean scores. The statement implying that SACCO employees are friendly and willing to help customers when in need recorded a mean score of 3.2472. This value was higher than the 2.5 neutral mean score. This implied that according to most customers their SACCOs employees are friendly and willing to help customers when in need. The findings were in agreement with a study by Iruguthu (2014) who established that staff professionalism, responsiveness and courteousness did influence their customer satisfaction positively, and earned the organization competitive advantage.

The statement implying that SACCO service delivery was prompt recorded a mean score of 2.9213. This value was slightly higher than the 2.5 neutral mean score. This implied that according to most customers their SACCOs delivered the products promptly, that is to say that service delivery was to their expectation. Interestingly, a large proportion was not satisfied with service delivery. The study was in agreement with a study by Abuya (2014) which established that the service quality is highly emphasized and practiced in the organizations. The study revealed that the service process and procedures that Fairmont uses allows it to ensure guests have a positive service experience in the hotel, leading to service excellence.

The statement asserting that SACCO mobile bank service systems adapted by the SACCO were fast efficient and reliable compared to other SACCOs recorded a mean score of 2.7640. This value was higher than the 2.5 neutral mean score. This implied that according to most customers, their SACCOs mobile bank service systems were fast efficient and reliable compared to other SACCOs. These findings are in agreement with a study by Geuens (2010) who established that operations efficiency gave the company a competitive edge over its competitors.

**Table 3: Descriptive Statistics for Service Quality – Customers Viewpoint**

	N	Minimum	Maximum	Mean	Std. Deviation
SACCO employees are friendly and willing to help us when in need	89	2.00	5.00	3.2472	1.02559
Service delivery is prompt	89	2.00	5.00	2.9213	1.04691
Mobile bank service systems adapted by the SACCO are fast efficient and reliable compared to other SACCOs	89	1.00	5.00	2.7640	1.04471
Sacco employees courteous and knowledgeable compared to those of other competitors	89	1.00	5.00	2.6404	1.10007
Valid N (listwise)	89				

#### Correlational Results:

The results for Pearson correlations between quality of substitutes and competitive strategy employed were as presented in Table 4. The findings show that the Pearson correlation results between quality of substitutes and competitive strategy employed by the SACCOs was as follows. There was a positive Pearson correlation between quality of substitutes and competitive strategy employed ( $r = 0.437^*$ ,  $p = 0.029$ ). This shows that there was an association between quality of substitutes and competitive strategy employed. Given that, the p value (0.029) was less than the test significance level ( $p < 0.05$ ), this relationship is statistically significant. The findings were in agreement with a study by Warraich et al (2014) who conducted a study using 320 companies in telecom sector in Pakistan, found that service quality to be considered as a



source of competitive advantage. Further, it was found that the tangibility and the reliability are the most important dimensions in determining the competitive advantage.

**Table 4: Correlational Results for Quality of Substitutes**

		Competitive Strategy Employed	Quality of Substitutes
Competitive Strategy Employed	Pearson Correlation	1	.437*
	Sig. (2-tailed)		.029
	N	25	25
Quality of Substitutes	Pearson Correlation	.437*	1
	Sig. (2-tailed)	.029	
	N	25	25

\*. Correlation is significant at the 0.05 level (2-tailed).

### Regression Analysis:

Multiple regression analysis was done to establish the relationship between the independent and dependent variables and the results are presented in this section. The variables under investigation included quality of substitutes (Independent variable) and competitive strategy employed (dependent variable).

### Model Summary:

The R Square value in the Model Summary Table 5 shows the amount of variance in the dependent variable that can be explained by the independent variables. The independent variable (quality of substitutes) accounted for 19.1 per cent of the variability in competitive strategy employed. The R-value (.437) is the multiple correlation coefficient between all the entered independent variables and the dependent variable.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.437 <sup>a</sup>	.191	.156	.39954

a. Predictors: (Constant), Quality of Substitutes

In the study, the predictors are significant when Sig. (p value)  $p < 0.05$ . The findings in Table 6 show that p value was 0.029. Since the p value is less than 0.05 (confidence level), we can conclude that the effect of the independent variables is significant. As  $p < 0.05$  our predictors are significantly better than would be expected by chance. The regression line predicted by the threat of substitutes explains a significant amount of the variance in the level of effectiveness of the competitive strategy employed. This is reported as follows:  $F(1, 23) = 5.441$ ;  $p < .05$ , and therefore can conclude that the regression is statistically significant.

**Table 6: Analysis of Variances (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.869	1	.869	5.441	.029 <sup>b</sup>
	Residual	3.671	23	.160		
	Total	4.540	24			

a. Dependent Variable: Competitive Strategy Employed

b. Predictors: (Constant), Quality of Substitutes

The Beta Coefficients with respect to the SACCOs are presented in Table 7.

Table 7: Beta Coefficients and Model for the SACCOs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.955	.337		8.760	.000
	Quality of Substitutes	.227	.097	.437	2.333	.029

a. Dependent Variable: Competitive Strategy Employed

The following regression model was used

$$CS = \beta_0 + X_1\beta_1 + \varepsilon, \text{ hence}$$

$$CS = 2.955 + 0.227 + 0.337$$

From the findings it emerges that Quality of Substitutes was an influential determinant of customer satisfaction at (Beta = 0.437). The research hypothesis stated that "Ho: Service Quality of product does not have a significant effect on competitive strategy in deposit taking savings and credit co-operatives in Kericho County. Since the p value associated with quality of product was 0.015, we reject the null hypothesis and conclude that quality of product has a significant effect on competitive strategy. The decision rule was to reject the null hypothesis if p value calculated is less than the confidence level  $p = 0.05$ . This shows that quality of products and services was a strong predictor of customer satisfaction. This factor had a positive effect on the competitive strategy employed by the SACCO. The findings were in agreement by Nsiah and Mensah (2016) who indicated offering high quality service, increase customer retention, which in turn leads to high level of customer commitment and loyalty.

## 5. CONCLUSIONS

From the findings, the study concluded that quality of product had a significant effect on competitive strategy employed by the SACCOs. SACCO employees were friendly and willing to help customers when in need, and thus customers were happy with the quality of products offered in comparison to those offered by the competitors. The study also concludes that SACCOs mobile bank service systems were fast efficient and reliable compared to other SACCOs and institutions in Kericho County. This had helped enhance the efficacy of the competitive strategy employed by the SACCOs.

## 6. RECOMMENDATIONS

SACCOs in Kericho County should consider scaling up the quality of products and service, since this appears to be the most influential factor contributing towards the success of competitive strategies in SACCOs in Kericho County.

SACCO management bodies, before competitive strategy formulation, should further investigate to better understand how their clients think and respond, because, they are seeking to improve their customer satisfaction levels to increase their participation.

Considering the fact there are new technologically driven competitors such as MPESA, there is need for the SACCOs to adopt competitive strategies that technology oriented and up to date. Information technology should be fully funded and receive unconditional support from the management. Financial constraints are part of the problems that limit the effectiveness of information technology in Saccos.

SACCOs in Kericho County need to up their game in strategy formulation and implementation and look beyond their ilk especially when crafting competitive strategies. Competition is not only against each other, but also against other lenders such as banks, mobile phone companies (such as Safaricom's 'MPESA', airtel's 'airtel money', yu's 'yucash' and Orange's 'iko pesa/orange money'), 'chamas' (informal groups pooling resources and lending the same to each other using agreed upon formulae) and even Shylocks (people who lend money at very high rates of interest).

### Suggestion for Further Studies:

- The study focused on threat of substitutes on competitive strategy in Deposit Taking Savings and Credit Co-operatives. It remains unclear, whether the study could get similar results in other types of microfinance. There is need to extend the study model to other types of microfinance institutions and even other financial institutions.



- ii. Given that the study only covered Kericho County, it was not able to compare with the situation in the Neighbouring countries. The study recommends a similar study in Bomet, Baringo and Nakuru Counties which is more generalizable nationwide.

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