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INFLUENCE OF INDUSTRY CHARACTERISTICS ON COMPETITIVE ADVANTAGE OF DEPOSIT TAKING SACCOs IN NAIROBI, KENYA

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ABSTRACT

The main objective of the study was to establish the influence of industry characteristics on the competitive advantage of Deposit Taking Savings and Credit Cooperative Organisations (DT-SACCOs) in Nairobi County, using Michael Porter's industry forces namely industry rivalry, customers bargaining power, suppliers bargaining power and barriers to entry. The study adopted a descriptive research design targeting all the 44 DT-SACCOs in Nairobi County licensed by the Savings and Credit Cooperative Organisations (SACCO) Societies Regulatory Authority (SASRA) in 2019. Quantitative data collected through structured questionnaires was used whereby descriptive statistics, correlation and regression analysis was conducted. The findings indicated that customers bargaining power was high among customers who patronized large volumes of credit.

In addition, suppliers whose inputs were differentiated were found to have high bargaining power leaving DT-SACCOs with limited options to switch to another supplier to the extent of affecting performance because of high running costs while keeping a keen eye on their brand value and customer loyalty. The study also found that barriers such as start-up capital, government regulations and policy on minimum requirements for business licensing hindered new entrants while existing firms continued to enjoy brand value and customer loyalty. The study concluded that industry rivalry influenced competitive advantage of DT-SACCOs when the industry was highly concentrated, and growth was slow. Customers bargaining power influenced competitive advantage of DT-SACCOs among customers patronizing large volumes of credit and those with ease of access to information giving them ability to force down prices. Suppliers bargaining power had influence on competitive advantage of DT-SACCOs when the inputs were differentiated. Barriers to entry influenced competitive advantage of DT-SACCOs with start-up capital, government regulations and policy hindering new entrants and compliance being seen as a competitive edge for the existing businesses in enhancing their brand value.

Keywords: *Industry characteristics, competitive advantage, Deposit taking SACCOs*

BACKGROUND OF THE STUDY

Competitive advantage is an important factor in retaining long-term prosperity of a nation and therefore there would be no competitive nations without having competitive firms; a nation's competitiveness strongly depends upon the competitiveness of its firms (Sachitra, 2017). It enables a firm to earn higher profits than the average profit earned by its competitors (Dziwornu & Raymond, 2014). According to Ismail et al. (2010) competitive advantage is one of the foundations for high level performance. A firm that can improve the quality of its items of trade, lessen the related costs, or develop its piece of the overall industry benefit supposedly has a competitive advantage (Grupe & Rose, 2012). Esen and Uyar (2013) stated that competitive advantage is a circumstance that is characterized and estimated against an individual contender.

The operational meaning of competitive advantage holds that the available resources and other capabilities when utilized with a particular goal in mind keeps the firm distinct from its rivals, to ensure sustainable growth (Jones, Harrison & Felps, 2018). From the given definition, three attributes stick out: long survival, hard to impersonate and hard to recognize (Maruta, Andi & Nanis, 2017). The factors that influence competitive advantage include those that the firm has control over, known as the inside components or those that are associated with the environment called the outer components (Schulz & Flanigan, 2016). It is along these lines that advancement of strategies can assist the legislature with regulating rivalry and thus making it important to think about what really impacts competitive advantage and the determinants included. This study intended to concentrate on an outside factor which had previously not been researched widely, the characteristics of the industry.

As per Enida (2017), the industry is the field where the challenge happens. Michael Porter brought forth the concept of industry characteristic in strategic thought and business planning. To this end, he postulates the Five Forces Model that are attributable to shaping competition in an industry, using various theoretical frameworks and perspectives which attempt to explain competitive advantage (Porter,1979). According to Porter, industry characteristics are characterized by rivalry among the current firms, threat of new entrants, threat of substitutes, bargaining power of suppliers and bargaining power of customers. The combined strength of these forces defines the ultimate profit potential of an industry. Specifically, when the industrial rivalry is not strong, companies can raise prices and hence earn higher profits.

Within the contemporary meaning, the term of competitive advantage was coined by Michael Porter in 1985. Porter (1985) defines competitive advantage at firm level as productivity growth that is reflected in either lower costs or differentiated products that are charged a premium price. Nation-wide, competitive advantage plays a key role in ensuring that there is sustainability driven by wealth and prosperity and therefore, firms must remain competitive (Sachitra, 2017). For a firm looking to sustain high level performance, it must include the aspects of competitive advantage to its foundations (Ismail et al., 2010) because as Dziwornu and Raymond (2014) states, it facilitates for a firm to supersede its competitor's earnings. A firm is said to have competitive advantage when it is executing an action plan which is not at the same time being actualized by any present or potential contenders (Wang, 2014).

STATEMENT OF THE PROBLEM

As firms ponder over the question of superior performance within a changing environment, the need to scan through the industry and analyze the influence of its characteristics on their competitive advantage becomes paramount. In ensuring that an organization holds a competitive edge against its competitors, it must have a thorough understanding of both the external and internal forces that are in play. Understanding how these factors influence its competitive advantage, determines how firms position themselves for not just survival but remarkable performance. For a firm looking to sustain high level performance, it has to include the aspects of competitive advantage to its foundations (Ismail et al., 2010). In Kenya, Savings and Credit Cooperative Organisations (SACCOs) have been characterized by strong growth, thus making a significant contribution to the overall economy with 63 per cent of Kenya's population participating directly or indirectly in cooperative-based enterprises (Kenya Union of Savings and Credit Co-operative Limited, KUSCCO, 2017). SACCOs have been concerned about factors that influence their performance and much have been done in identifying factors that make for a unique organization especially branding, leadership and governance, capacity building for their employees and members among others but these have produced different results leaving one desiring to explore the best approach on how SACCOs can achieve a competitive edge.

Over time, the cooperative model has been seen as one that is not business-like and therefore making Sacco's nonprofit making entities. However, SACCOs have continued to compete with other financial institutions, in the same industry, whose business models are different allowing them to strongly focus on superior performance. A study by Indiatsy et al, 2014 showed that SACCOs are experiencing intense competition due to threat of new entrants among them microfinance organizations, youth and women funds extended by the Kenyan government who also engage in similar business; providing products and services with similar features and even at lower rates; the problem is further compounded by the emergence of e-platforms offering access to quick loans. Previous studies reveal internal factors that influence competitive advantage of SACCOs (Kariuki, Kirimi and Mutembei, 2017). Past studies on industry characteristics in the SACCO sub-sector focused on its effects on strategy formulation (Kawira, 2017). No study had been conducted on influence of industry characteristic on SACCOs' competitive advantage. This study focused on external factors which had not been researched widely. The current study aimed to bridge this gap by investigating the influence of industry characteristics on the competitive advantage of Deposit Taking SACCOs in Nairobi, Kenya using Michael Porter's four constructs (threat of new entrants, bargaining power of buyers, bargaining power of suppliers, and rivalry) with the fifth one, threat of substitutes, not being considered because finding substitutes for money will mean getting other products that can play similar role as a medium of trade by financial institutions (Winnie, 2020).

OBJECTIVES OF THE STUDY

i. To investigate the influence of industry rivalry on competitive advantage of DT-SACCOs in Nairobi, Kenya.
ii. To assess the influence of customers bargaining power on competitive advantage of DT-SACCOs in Nairobi, Kenya.
iii. To explore the influence of suppliers bargaining power on competitive advantage of DT-SACCOs in Nairobi, Kenya.
iv. To examine the influence of barriers to entry on competitive advantage of DT-SACCOs in Nairobi, Kenya.

EMPIRICAL LITERATURE REVIEW

Industry Rivalry and competitive Advantage

Miring'u, (2017) completed an examination on impacts of industry contention on competitive advantage in steel industry which was an instance of level steel portion. The objective populace was the 112 staff working in senior and center level administration at Mabati Rolling Mills Limited. The examination received essential information which was gathered through organized surveys controlled utilizing messages and drop-and-pick technique. The examination embraced a stratified irregular inspecting strategy. The examination built up that value rivalry among adversary firms was very precarious, henceforth influencing the business productivity. In any case, very focused contention, the examination found that there existed higher leave obstructions in the business with the end goal that financial, vital and enthusiastic variables kept organizations contending in business regardless of whether there was low benefit acquiring. In the level steel industry, high force of contention prompts solid challenge and accordingly organizations penance quick gainfulness because of high key stakes in an expansionary vision and eagerness to pick up progress inside the business.

Wu and Xu (2016) completed an examination investigating how organizations react to rivalry in an industry in which was a contextual analysis of two B2C web-based business organizations in China. The investigation utilized a case technique. Semi-organized meeting was utilized for essential asset of information in order to secure the fundamental data. Optional information was additionally utilized, which was chiefly from the organization's yearly report, the official site and articles. The built up that industry rivalry was extraordinarily expanding. This investigation exhibited that the organizations need to improve their aggressiveness to react to rivalry, for example, improving the nature of item, the calculated framework, and the after-deal administration. Kinyungu and Ogollah (2017) completed an examination because of focused procedures on authoritative execution of Kenya Commercial Bank. The populace for the examination comprised of the considerable number of parts of Kenya Commercial bank in the nation as at 31st December, 2015. Comfort irregular inspecting was utilized to choose the 30 branches in Nairobi. The essential research information was gathered from the respondents utilizing a poll. The information was then breaking down utilizing clear insights utilizing measurable bundle for sociologies. The investigation built up that cost administration procedures, showcase center, separation and item development methodologies significantly impacted the presentation of Kenya Commercial Bank.

Customers Bargaining Power

Svrcek (2016) did an examination because of customers bargaining power in tertiary training in the Czech Republic. The investigation utilized optional information. Information to portray the circumstance was assembled from the yearly articulations in regards to the present condition of tertiary instruction. Chosen information would at that point be arranged and examined to demonstrate the impacts of each power on the business. The examination built up that if certain suppliers of tertiary training have a program that isn't especially requested couple of quantities of understudies are intrigued and apply to that program. The examination further discovered that despite the fact that there are various decisions and alternatives for potential understudies of colleges the fact of the matter is with the end goal that the interest of tertiary investigations was still very over the supply of this administration.

The state funded colleges in Kenya were found to have embraced the reaction systems on the Porter's five aggressive power's structure considered by Mathooko and Ogutu (2015) which found that the decisions understudies had made their capacity to increment. There would be more capacity to the purchasers because of the decisions that they have as state funded colleges have expanded. A registration overview structure was utilized and the distinct plan was received as the exploration structure. All the Kenyan state funded colleges were as the investigation's motivation. There are nine college schools, 22 completely fledged colleges which make an aggregate of 31 colleges in Kenya at present. Essential and auxiliary information was gathered by the analyst. The understudies and college staff were utilized to fill in the cross-sectional overview that was utilized in gathering of the essential information. The distributed works, printed media and colleges and government records in open area were utilized to give the auxiliary information.

Barriers to Entry

Cubero (2015) completed an investigation because of hindrances to passage on aggressive technique of the financial business in Spain. On danger of new contestants, the examination found that, the Spanish financial industry is alluring for long haul productivity the discoveries likewise shown that the MNC's offer worth surpasses that of other industry players in a similar fragment and subsequently appealing to draw new participants.

Omwoyo (2016) completed an investigation on the impacts of nonexclusive techniques on the competitive advantage of firms in Kenya's carrier industry which was an overview of chosen aircrafts. The investigation grasped a graphic research strategy in breaking down, translating, and displaying information. The investigation utilized surveys to get information from respondents. The examination concentrated on 100 administration workers from Kenya Airways, Fly 540 and Fly-SAX. The examination utilized statistics approach on the focused-on populace. The investigation embraced an elucidating and inferential insights in data examination and introduction. The investigation found that exceedingly unmistakable or novel items make it hard for new contestants to rival the notoriety and aptitudes that current firms as of now have. The examination likewise discovered that because of cost authority, organizations in aircraft industry endeavor to supply a standard of high-volume benefits at the most focused costs to clients. To accomplish this, the organizations misuse all potential cost drivers to permit the more noteworthy productivity in each worth including action.

Competitive Advantage

Milao (2018) did research on factors of competitive advantage of companies in the telecommunications industry in Kenya. The participants targeted by the research were Safaricom Limited's divisional and functional leaders. The target population was 90 subjects from which, using stratified sampling; a sample of 40 % was drawn. Questionnaires were used after being tested as a pilot to collect information. Information was analyzed using statistical package for social sciences. Qualitative data was analyzed using thematic and content analysis. The study established that Safaricom was a market leader in the telecommunication industry in Kenya. It also established that innovation, staff training, customer orientation and stakeholder involvement were major determinants of competitive advantage for firms.

China's small businesses of service sector were investigated by Dai (2016) on how building learning organization helped in gaining of competitive advantage. The research objective and sub objectives were fulfilled through adoption of the case study as the methodology. The Southern China's small companies were interviewed by the researcher so as to obtain data and information that is solid. Semi structure and online implemented were done to the eight interviews. Four managers and four employees were included in the interview. The concept of learning organization had been understood in the organization, and the Chinese entrepreneurs had maintained competitive advantage through good leadership functions which helped in building of the organization's learning.

RESEARCH METHODOLOGY

This research problem was studied through the use of a descriptive research design. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. The target population of this study was all (44) DT SACCOs licensed by SASRA and headquartered in Nairobi. The study population was top and middle management staffs who directly deal with the day-to-day operations in the said SACCOs. According to SASRA (2019) there are 44 licensed SACCOs within Nairobi County. The study employed census, where all (123) respondents were involved in the study because the target population was small and manageable. The study employed a structured questionnaire to collect quantitative primary data. Quantitative data was coded and entered into Statistical Package for Social Science (SPSS Version 23) and analyzed using descriptive statistics. Quantitative data was presented in tables and graphs and explanation was presented in prose. The study also used inferential statistics to establish influence of industry characteristics on competitive advantage of DT- SACCOs in Nairobi, Kenya. Additionally, to establish the strength of the relationship between the independent and dependent variables of the study, the researcher used multiple regression analysis.

The following analytical model was applied for the study;

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y is the dependent variable (Competitive Advantage),

β_0 is the regression coefficient /Y-intercept,

β_1, β_2, β_3 and β_4 are the slopes of the regression equations,

X_1 is Industry rivalry,

X_2 is Customers bargaining power,

X_3 is Suppliers bargaining power,

X_4 is Barriers to entry,

e is an error term

RESEARCH FINDINGS AND DISCUSSION

The study targeted a total of 123 respondents. However, out of the 123 targeted respondents, the researcher was able to get response from 111 respondents thus representing a response rate of 90% of the total targeted population. The response rate was perceived reliable for data analysis as Mugenda and Mugenda (2003) pointed out that for generalization purpose, a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent. The excellent response rate was accredited to the data collection procedure, where the researcher administered the questionnaires after briefing the respondents on the actual purpose of the study. With the aim of determining the reliability of the questionnaire used, the researcher undertook a reliability test by use of Cronbach's alpha.

The reliability is expressed as a coefficient between 0 and 1. The higher the coefficient, the more reliable is the test. In this study Cronbach Alpha was used to test the reliability of the proposed constructs. The overall model had a Cronbach's Alpha of 0.736, while the independent variables of industrial rivalry, customers bargaining power, suppliers bargaining power, barriers to entry had 0.711, 0.749, 0.752 and 0.721 respectively, while the dependent variable competitive advantage had 0.748. Based on reliability test it was supposed that the scales used in this study were reliable to capture data for the constructs in the conceptual framework.

Table 1: Reliability Test

Variable	No. of Items	Cronbach's Alpha	Verdict
Competitive advantage	5	0.748	Reliable
Industrial rivalry	3	0.711	Reliable
Customers bargaining power	3	0.749	Reliable
Suppliers bargaining power	3	0.752	Reliable
Barriers to entry	3	0.721	Reliable

Diagnostic Tests

Test of Autocorrelation

As shown on the Table 2 below, the Durbin Watson was 1.136 which shows that the data set did not have autocorrelation. As a common understanding, a Durbin Watson statistic of between 1 and 1.5 indicates the absence of autocorrelation.

Table 2 Autocorrelation

Durbin-Watson
1.136
Predictors: (Constant), Barrier of Entry, Suppliers Bargaining Power, Customers Bargaining Power, Industry Rivalry
Dependent Variable: Competitive Advantage

Multi Collinearity Test

The common rule of the thumb of Variance Inflation Factor (VIF) is that it should be less than 10 to indicate multicollinearity. Table 3 below shows the VIF figures as 6.175, 5.482, 1.859 and 2.005 for Industry rivalry, Consumer Bargaining power, supplier bargaining power and Barrier to Entry respectively. Thus, the multicollinearity issue was not found in the variables.

Table 3. VIF test of Multicollinearity

		Collinearity Statistics	
		Tolerance	VIF
1	Industry Rivalry	.162	6.175
	Customers Bargaining Power	.182	5.482
	Supplier Bargaining Power	.538	1.859
	Barriers to Entry	.499	2.005
Dependent Variable: Competitive Advantage			

After testing the regression model assumptions, a regression model was established and the results presented in the sub sections. The subsections show the model summary, Analysis of Variance (ANOVA) and Model coefficients.

Model Summary

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (competitive advantage) that is explained by all the four independent variables (industry rivalry, customer bargaining power, suppliers bargaining power and barriers to entry). The four independent variables that were studied, explain 91.5% level of influence on competitive advantage as represented by the adjusted R^2. This therefore means that other industry characteristics not studied in this research contribute 8.5% of the variation in DT SACCO's competitive advantage. Therefore, further research should be conducted to investigate the other industry characteristics.

Table 4. Regression Model Summary

Model Summary Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.957[a]	.915	.580	.84214	1.136
Predictors: (Constant), Industry Rivalry, Supplier Bargaining Power, Customers Bargaining Power, Barriers to entry					
Dependent Variable: Competitive Advantage					

ANOVA Test

The analysis of variance obtained from the study is as depicted in Table 5. All independent variables were regressed against the main dependent variable (competitive advantage) in order to establish the overall variance. According to the variance results obtained, it was found out that, the F-statistic of the model was 2.682 and was statistically significant at 0.035. The study finding is an indication that the overall model is significant and can thus be utilized for the purposes of making predictions at 5% level of significance.

Table 5 ANOVA Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.609	4	1.902	2.682	0.035[b]
	Residual	75.175	106	.709		
	Total	82.783	110			
Dependent Variable: competitive advantage						
Predictors: (Constant), Industry Rivalry, Supplier Bargaining Power, Customers Bargaining Power, Barriers to entry						

Regression Model

Multiple regression analysis was conducted to determine the relationship between competitive advantage and the industry characteristic variables. As per the SPSS generated table 6, the equation

$$Y = 1.699 + 0.266X1 - 0.251X2 + 0.148X3 + 0.325X4$$

The regression equation above established that taking all factors into account (industry rivalry, customer bargaining power, suppliers bargaining power and barriers entry) constant at zero, competitive advantage will be 1.699. The findings presented also shows that taking all other independent variables at zero, a unit increase in industry rivalry will lead to a 0.266 increase of competitive advantage; a unit increase in customer bargaining power will lead to a 0.251decrease of competitive advantage, a unit increase in suppliers bargaining power will lead to a 0.148 increase to competitive advantage and a unit increase in barriers to entry will lead to a 0.325 increase to competitive advantage.

This infers that supplier's bargaining power contribute most to competitive advantage followed by customer bargaining power then barriers to entry while industry rivalry the little to competitive advantage. The findings are consistent with that of Miring'u, (2017) who similarly indicated that in the Kenyan steel industry, high force of contention prompts solid challenge and accordingly organizations penance quick gainfulness because of high key stakes in an expansionary vision and eagerness to pick up progress inside the business. In addition, Wu and Xu (2016) also established that due to high competition, organizations reacted to rivalry by improving their delivery. Cubero (2015) who completed an investigation because of hindrances to passage on aggressive technique of the financial business in Spain found that, the Spanish financial industry is alluring for long haul productivity given high competition.

Table 6 Regression Model

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	1.699	1.501		1.131	0.260
Industry rivalry	0.266	0.420	0.146	0.634	0.528
Customer bargain power	-0.251	0.393	-0.139	-0.640	0.524
Suppliers bargain power	0.148	0.134	0.140	1.106	0.271
Barriers to entry	0.325	0.122	0.347	2.651	0.009

CONCLUSION

The overall objective of this study was to assess the influence of industry characteristics on competitive advantage of Deposit Taking SACCOs in Nairobi, Kenya. The study determined that industry characteristics have an influence on the competitive advantage of Deposit Taking SACCOs in Nairobi, Kenya. Inferential statistics revealed that 91.5% of variations on competitive advantage is brought about by Industry rivalry, customer bargaining power, supplier bargaining power and Barriers to entry. The model was found to be statistically significant as exhibited by P-Value of 0.035 statistic for the ANOVA. The study determined that market rivalry was a major factor that contributed to a competitive advantage for the DT-SACCOs in Nairobi, Kenya. In addition, the influence of Industry Rivalry on competitive advantage of DT-SACCOs was major and positive. Consequently, it was concluded that Product heterogeneity enhanced customer satisfaction and insulated DT-SACCOs against competitive warfare.

For customer bargaining power, the study determined that customer bargaining power was a factor that determined the competitive advantage of DT-SACCOs in Nairobi Kenya. In addition, the influence was Negative. Customers who patronize large volumes of credit in financial institutions like DT-SACCOs played an important role in sustaining the organization's performance and hence had a high bargaining power and if not checked can force down chargeable fees reducing the expected earnings.

The study found out that supplier bargaining power was a factor that determined the competitive advantage of DT-SACCOs in Nairobi, Kenya. In addition, the influence was found to be positive and major in determining the competitive advantage of DT-SACCOs. The suppliers whose inputs are differentiated were also found to have high bargaining power and DT-SACCOS were found to have limited options to switch to another supplier especially on technological solutions and this affected the output of the organization, its brand value and customer loyalty. The study established that there was indeed a barrier to entry in the industry of DT-SACCOs due to the huge requirements by the regulation body and thus this was helping SACCOs in the industry to have a competitive advantage over other SACCOs. The study therefore concluded that barrier to entry on the industry of Deposit taking was a key contributor of competitive advantage for existing SACCOs. This influence was found to be statistically significant and positive. Barriers to entry were in relation to start-up capital in terms of mobilization of lending funds and that deterred new entrants from joining the DT-SACCO and government regulations and policy on minimum requirements for business licensing which limited interested entrants while existing organizations continued to enjoy brand identity and customer loyalty with new entrants finding it difficult to match.

RECOMMENDATIONS

The study recommends that DT-SACCOs should consider in investing in research so as to understand the industry characteristics that are in play in their industry. They should also aim at using the research report to address the needs of their customers and aligning with the market trends. Also, the report can be used to shape their competitive advantage and build their internal capacity to deliver value. In order to curtail the strong bargaining power by suppliers they should invest in technologies that are supportive to their business performance and also try to search for inputs that are available with a number of suppliers to raise their competitive edge. Keeping up with the regulators requirements was also found to be for the good of the DT-SACCOs and therefore this study recommends that SACCOs that wish to conduct the DT-SACCO business should find ways to deal with the barriers even if it means negotiating with the regulators on terms of implementation.

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CONFLICT OF INTEREST

No potential conflict of interest was recorded by the authors.

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