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Research Article

Cost Leadership Strategy on Performance of SACCOs in Kisii County, Kenya

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Abstract
The study explored how Deposit-taking Savings and Credit Cooperative Organizations (SACCOs) contribute to financial inclusion and economic empowerment in Kenya, with a focus on Kisii County. It acknowledged the growing competition SACCOs face from commercial banks, microfinance institutions, and digital financial platforms, which poses a threat to their sustainability and performance. To address this challenge, the study aimed to evaluate the effects of cost leadership performance of SACCOs in Kisii County. The study was anchored on Porter's Generic Competitive Strategies. A survey research design was used, targeting 141 respondents including SACCO managers, board members, and regulators. Data were collected through questionnaires, validated for reliability and analysed using SPSS. The study provided actionable insights for improving SACCO competitiveness and strengthening their role in Kenya's financial ecosystem. The findings indicate that cost leadership strategy is a highly influential factor in driving performance, demonstrating its strong predictive effect. The study concludes that cost leadership strategy is a significant positive predictor of performance among deposit taking SACCOs. The study further recommends that while cost leadership strategies did not show meaningful effect on SACCOs, re-engineering operational processes through digitization and automation would reduce transaction and service delivery costs hence, performance. Further, the SACCOs would optimize branch networks by embracing alternative channels such as agency banking, mobile banking, and online platforms and shift focus to low-cost digital marketing strategies like social media, SMS marketing, and referral programs that target high-conversion segments.
Keywords: Cost Leadership, Revenue Performance, Service Delivery, Challenges.

Introduction

The world has been undergoing significant transformation in recent years due to globalization and rapid technological advancements, which have reshaped industries and business landscapes (Yunis *et al.,* 2018). As a result, organizations must adapt to stay competitive, leveraging the emerging opportunities brought about by these changes. Otache *et al.,* (2023) investigated internal factors affecting the performance of employee-based savings and credit cooperative organizations (SACCOs) in Nigeria. Their study found that management committee effectiveness, member economic participation, innovation, and internal control systems positively impact performance, with management committee effectiveness having the most significant effect. This suggests that strategic focus on internal governance and member engagement enhances SACCO performance.

Hussaini and Zuru (2019) examined the relationship between low-cost strategy and the financial and social performance of MFIs in Nigeria. Utilizing a survey of 121 MFIs and employing structural equation modeling, they found that adopting a low-cost strategy positively influences both financial and social performance. This implies that MFIs focusing on cost leadership can achieve improved outcomes. Ogenwrot (2022) examined the effect of competitive strategies on the market performance of MTN Uganda Limited. The study's objectives included determining the relationship between cost leadership strategy and market performance. Quantitative data were collected from 96 respondents and analyzed at both univariate and bivariate levels. The findings revealed a statistically significant relationship between capacity utilization of resources, economies of scale, and market performance of MTN Uganda. The study recommended that MTN Uganda

focus on factors such as capacity utilization, cost control, and economies of scale to improve market performance.

The SACCOs subsector in Kenya has gained international recognition, being identified by the World Council of Unions (WOCCU) as the fastest-growing in Africa and the seventh best worldwide (Motari, 2018). This remarkable growth highlights the sector's strong organizational performance, making it an attractive investment opportunity for both domestic and international investors. However, this rapid growth also leads to heightened competition, underscoring the need for SACCOs to strategically position themselves in the marketplace. To maintain their competitiveness and ensure sustained performance, SACCOs must continually adapt to the evolving market dynamics through effective strategies and innovative approaches (Motari, 2018). Chege *et al.,* (2020) conducted a study examining the association between technology innovation and firm performance in Kenya, with a focus on the role of entrepreneurial innovativeness. Analyzing data from 240 enterprises using structural equation modelling, the study found that technology innovation positively influences firm performance. The authors recommend that entrepreneurs develop innovative strategies and that government policies aim to improve ICT infrastructure, promote technological externalities among SMEs, and establish ICT resource centres to support firm performance.

Objective of the Study

The objective of the study was to evaluate of effect of cost leadership strategy on performance of SACCOs in Kisii County, Kenya.

Theoretical Framework

The theory of Generic Competitive Strategies was developed by Michael E. Porter in 1980. Porter, a prominent scholar in competitive strategy, introduced this framework in his book "Competitive Strategy: Techniques for Analyzing Industries and Competitors". The theory provides a foundation for understanding how firms can achieve and sustain competitive advantage in their respective industries. Porter's Generic Competitive Strategies Theory posits that an organization can attain competitive advantage through three primary strategies: cost leadership, differentiation, and focus. According to Porter, these strategies are mutually exclusive, and a firm must choose one to succeed. The theory asserts that by pursuing one of these strategies effectively, firms can establish a strong market position and protect themselves from competitive forces.

Despite its widespread acceptance, the theory has faced criticism from some scholars and practitioners. One major critique is that Porter's model may oversimplify competitive strategy by treating the three strategies as mutually exclusive. In practice, companies often blend elements from different strategies, a concept known as "hybrid strategies." Additionally, the theory does not account for rapid changes in the external environment, such as technological disruption or changing consumer preferences. Furthermore, critics argue that the focus strategy is not inherently distinct from cost leadership or differentiation, as it merely targets a specific segment.

Porter's cost leadership strategy is evident in industries where price sensitivity is high. Firms that efficiently manage their costs while maintaining quality can dominate the market. For example, budget airlines like Ryanair have implemented cost leadership by minimizing operational expenses and offering no-frills services. In conclusion, Porter's Generic Competitive Strategies Theory offered valuable insights into achieving competitive advantage through cost leadership, differentiation, or focus strategies. Despite its limitations, it remained a cornerstone of strategic management, providing firms with a structured approach to positioning themselves favourably within their industries.

Literature Review

Rita *et al.,* (2022) provided valuable insights into the impact of cost leadership on SMEs in Nigeria; however, their study focused on a different geographical and sectoral context, limiting its applicability to SACCOs in Kisii County, Kenya. Additionally, while the study emphasized cost reduction strategies, it did not explore the potential trade-offs between cost efficiency and service quality in financial institutions. Furthermore, the reliance on SMEs may overlook the unique operational dynamics of SACCOs, such as regulatory constraints and member-driven decision-making. This created a research gap in understanding how cost leadership specifically influenced the performance of SACCOs in a Kenyan context. Wambaka (2022) provided valuable insights into the relationship between cost leadership strategy and perceived financial performance in Ugandan commercial banks. However, the study focused solely on senior managers' perceptions, potentially overlooking objective financial performance indicators. Additionally, the research was limited to the top 10

ranked banks, restricting generalizability to smaller or less competitive institutions. The study also emphasized cost leadership without considering potential moderating factors such as market conditions or regulatory influences. This created a research gap in examining the actual financial performance metrics across a broader range of banks while incorporating external influences that may affect strategy effectiveness.

Gikunda and Sawe (2024) provided valuable insights into the impact of cost leadership strategies on SACCO performance; however, their study was limited to deposit-taking SACCOs in Meru County, Kenya, restricting the generalizability of the findings to other financial institutions and regions. This study, therefore, left a gap in exploring a broader range of competitive strategies and their holistic impact on SACCO performance across diverse contexts.

Allan *et al.,* (2024) effectively demonstrated the positive relationship between competitive strategies and SACCO performance; however, their study primarily focused on cost leadership and innovation, neglecting other critical strategic dimensions such as customer-centric approaches and digital transformation beyond cost efficiency. Furthermore, the study generalized findings across all SACCOs without considering variations in size, financial capacity, or member demographics. This gap necessitated further research to examine the nuanced effects of alternative competitive strategies and external moderating factors on SACCO performance.

Wanjiru and Kinyua (2021) established that cost leadership strategies enhanced SACCO membership through competitive pricing and reduced service charges. However, their study failed to assess the long-term sustainability of such pricing strategies and their impact on financial stability. Similarly, Njoroge and Muthoni (2022) highlighted digitalization as a cost-reduction measure but did not examine potential challenges such as high initial investment costs and technological adaptability. Thus, there remained a research gap in understanding the trade-offs between cost leadership, financial sustainability, and technological investment in SACCOs in Kisii County, Kenya.

Mwaura and Karanja (2023) explored the role of lean management and technology adoption in improving SACCOs' operational efficiency, emphasizing cost reduction through automation. However, their study did not directly assess cost leadership as a strategic approach to overall performance, leaving a gap in understanding how broader cost-cutting strategies influence financial growth and competitiveness. Similarly, Kamau and Kimani (2022) focused on procurement cost reduction and workforce management, linking them to service efficiency and financial sustainability. Nevertheless, their study did not explicitly examine cost leadership as a competitive strategy, creating a research gap in establishing its direct effect on SACCO performance in Kisii County.

Ombati and Mwangi (2021) provided valuable insights into cost leadership challenges in SACCOs, highlighting regulatory costs, technology barriers, and managerial inadequacies. However, their study did not assess how SACCOs can strategically mitigate these limitations to enhance performance, creating a gap in understanding adaptive cost leadership strategies. Similarly, Gachoki and Waweru (2023) emphasized the trade-off between cost reduction and service quality but failed to explore innovative cost-cutting approaches that maintain customer satisfaction. This gap necessitated further research on sustainable cost leadership strategies that optimize both operational efficiency and member retention in SACCOs in Kisii County.

Research Methodology

A good research design was expected to have a clearly defined purpose and consistency between the research questions and the proposed research method (Sekaran and Bougie, 2016). This study, therefore, used a survey research design. Survey research design involved planning and executing a study to collect data from a sample of individuals or groups using survey instruments, hence its preference in the study. A survey research design was used, targeting 141 respondents. Since the study sample was small, the census sampling technique was used to convert the entire population into a study sample. Data were collected through questionnaires, validated for reliability and analyzed using construct validity and Cronbach alpha coefficient. Before data collection, researcher applied for a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) to allow for data collection. Relevant authorities were sought from the Deposit Taking SACCOs in Kisii to allow data collection. Data was collected using a questionnaire. Quantitative data collected was coded, entered into the Statistical Package for Social Sciences (SPSS) then analysed both descriptively, through frequencies, percentages, means and standard deviations where applicable, and through regression analysis.

Findings

The study sought to evaluate the effect of cost leadership strategy on performance of SACCOs in Kisii County, Kenya. The results were recorded in Table 1. The study targeted to collect data from 141 respondents but only 136 successfully filled and returned. This analysis therefore was based on the 136 respondents.

Table 1. Cost leadership strategy on performance.

Statements	N	Minimum	Maximum	Mean	Standard deviation
Our SACCO consistently minimizes service costs to enhance performance.	136	1	5	4.17	.899
The management regularly reviews service cost structures to improve efficiency.	136	1	5	4.19	.890
Reducing service costs has positively impacted our competitive advantage.	136	1	5	4.24	.784
The SACCO has adopted cost-effective distribution channels to reduce operational expenses.	136	1	5	4.20	.885
The use of digital platforms has minimized distribution costs.	136	1	5	4.15	.910
Optimizing distribution costs has enhanced the SACCO's financial performance.	136	1	5	4.26	.789
Marketing expenses are carefully controlled to maximize cost efficiency.	136	1	5	4.19	.874
The SACCO uses low-cost marketing strategies to maintain brand visibility.	136	1	5	4.25	.805
Digital marketing platforms are preferred to reduce marketing expenditure.	136	1	5	4.25	.823

The descriptive statistics indicate a strong consensus among respondents on the positive effect of cost leadership strategy on the performance of SACCOs in Kisii County, Kenya. Across all the measured indicators, the mean values are consistently high, ranging from 4.15 to 4.26 on a five-point Likert scale, suggesting agreement or strong agreement with the statements. Notably, the highest mean score (4.26) relates to the statement that optimizing distribution costs has enhanced the SACCO's financial performance, highlighting the significant role cost efficiency in operations plays in improving overall performance. Similarly, the adoption of cost-effective distribution channels (mean = 4.20) and the use of digital platforms to minimize distribution and marketing costs (means = 4.15 and 4.25 respectively) demonstrate a strategic shift towards leveraging technology to reduce operational expenditure. The relatively low standard deviations (ranging from 0.784 to 0.910) further indicate consistency in responses, suggesting that cost leadership strategies such as service cost minimization, review of cost structures, and implementation of low-cost marketing approaches are widely acknowledged by respondents as key drivers of competitive advantage and improved efficiency.

Regression Analysis

Before conducting linear regression analysis, tests of assumptions for linearity were done. Therefore, diagnostic tests were performed as illustrated in Figure 1.

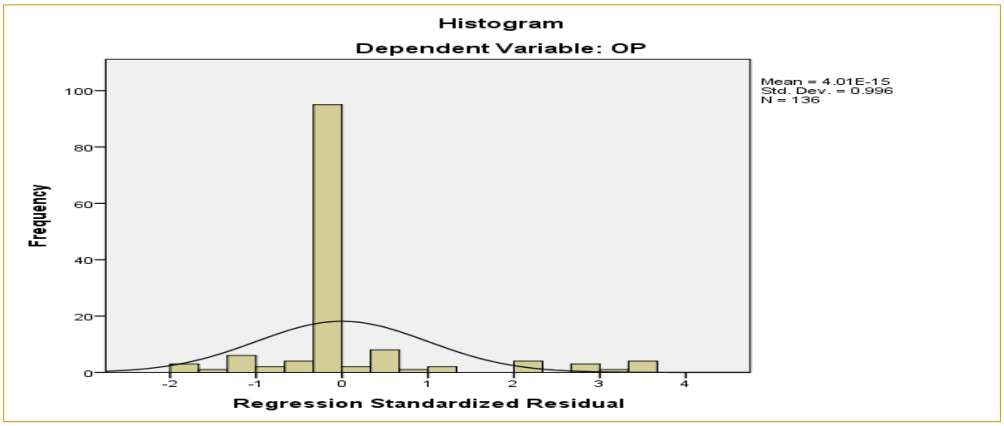

Figure 1. Histogram test for cost leadership strategy and performance.

The normal P-P plot of regression standardized residuals assesses the assumption of normality in regression analysis. The plot compares expected cumulative probability against observed cumulative probability. Ideally, if residuals follow a normal distribution, data points should closely align with the diagonal reference line. Here, the points show minor deviations but generally follow the expected pattern, suggesting that the normality assumption holds reasonably well. While some variation exists, it does not significantly undermine the regression model's validity.

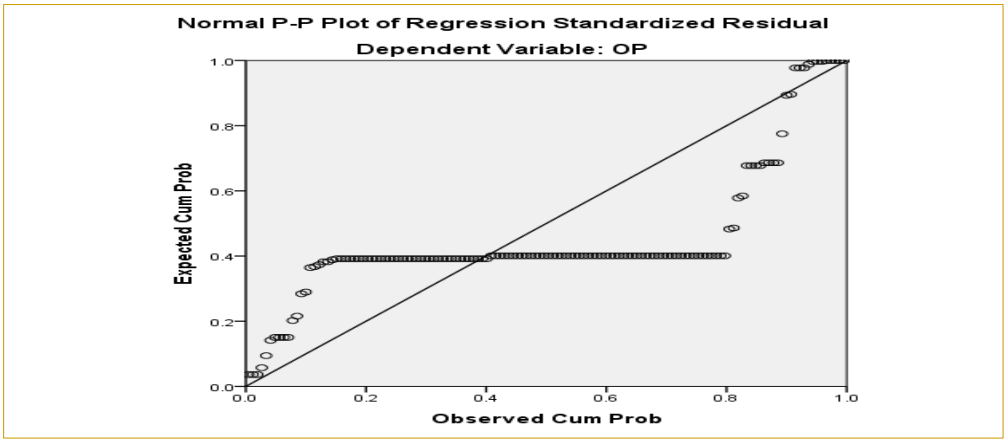

Figure 2. P-P plot for cost leadership strategy and performance.

The normal P-P plot of regression standardized residuals assesses whether residuals follow a normal distribution, which is crucial for validating regression assumptions. The plot shows the expected cumulative probability on the y-axis versus the observed cumulative probability on the x-axis, with data points closely following the diagonal reference line. This suggests that the residuals are approximately normally distributed, supporting the normality assumption in regression analysis and reinforcing the model's validity.

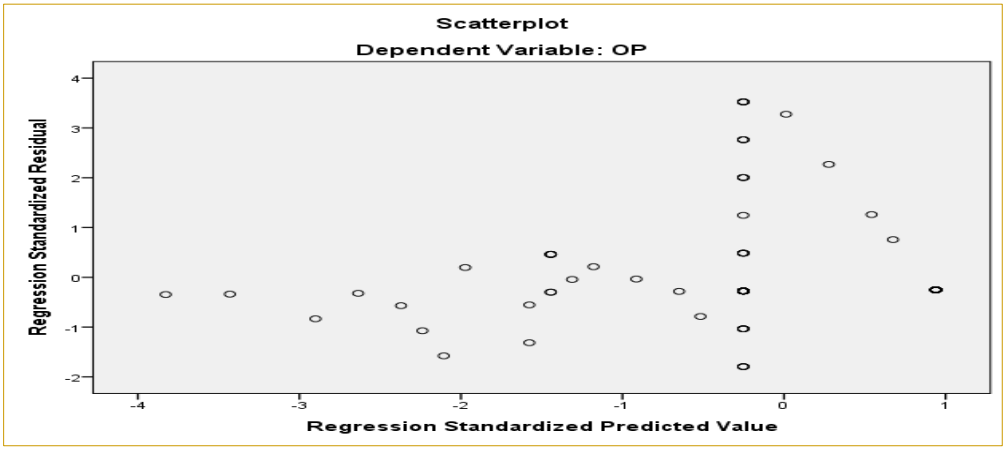

Figure 3. Scatter plot for cost leadership strategy and performance.

The normal P-P plot of regression standardized residuals assesses whether residuals follow a linear pattern. In this plot, the data points generally align with the diagonal reference line, indicating that the residuals are approximately normally distributed. This suggests that the linear regression model is valid, and the assumption of linearity holds. Small deviations from the line are expected, but as long as there is no severe curvature or clustering, the model can be considered appropriate for linear analysis.

Table 2. ANOVA for cost leadership strategy and performance.

Model		**Sum of squares**	**df**	**Mean square**	**F**	**Sig.**
1	Regression	94.047	1	94.047	1954.065	.000[b]
	Residual	6.449	134	.048	-	-
	Total	100.497	135	-	-	-
a. Dependent variable: Performance						
b. Predictors: (Constant), Cost leadership strategy						

The ANOVA results indicate that the predictor cost leadership strategy has a statistically significant impact on the dependent variable performance (p= .000), meaning the relationship is highly unlikely to be due to chance. The F-statistic (1954.065) is extremely high, suggesting a strong effect of cost leadership strategy on performance. The regression sum of squares (94.047) accounts for nearly all the total variation in performance, leaving a very small residual error (6.449). Given this, cost leadership strategy appears to be a dominant predictor of performance, with a well-fitted model suitable for further interpretation and application.

Table 3. Model summary for cost leadership strategy and performance.

Model	R	R-square	Adjusted R-square	Standard error of the estimate	Durbin-Watson
1	.967[a]	.936	.935	.21938	.126
a. Predictors: (Constant), Cost leadership strategy					
b. Dependent variable: Performance					

The regression model summary indicates a very strong positive relationship between the predictor variable cost leadership strategy and the dependent variable performance, as shown by the high R value of 0.967. The R-square value of 0.936 means that approximately 93.6% of the variance in performance can be explained by cost leadership strategy, suggesting the model has high explanatory power. The adjusted R-square, which adjusts for the number of predictors, is also high at 0.935, confirming the model's robustness.

The standard error of the estimate is 0.21938, indicating the average distance between the observed and predicted values are relatively low. However, the Durbin-Watson statistic of 0.126 suggests a potential problem with positive autocorrelation in the residuals, which may affect the validity of the regression results and should be further investigated.

Table 4. Regression coefficients for cost leadership strategy and performance.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Standard error	Beta		
1	(Constant)	.081	.097	-	.840	.402
	Cost leadership strategy	.995	.023	.967	44.205	.000
a. Dependent variable: Performance						

The regression results show that the independent variable cost leadership strategy has a strong and statistically significant positive effect on the dependent variable performance (performance). The unstandardized coefficient (B = 0.995) indicates that a one-unit increase in cost leadership strategy leads to an approximate increase of 0.995 units in performance. The t-value of 44.205 and a p-value (Sig.) of .000 indicate that this relationship is statistically significant at the 0.05 level, meaning we reject the null hypothesis that cost leadership strategy has no effect on performance.

The high standardized coefficient (Beta = 0.967) suggests that cost leadership strategy is a very strong predictor of performance. The constant (intercept) is not statistically significant (p = .402), implying that performance does not significantly differ from zero when cost leadership strategy is zero. The study was in agreement with studies by Gikunda and Sawe (2024) who found a significant positive impact between cost leadership strategies and deposit-taking SACCOs in Meru County, Kenya. The study was also in line with a study by Allan *et al.,* (2024) who effectively demonstrated the positive relationship between competitive strategies and SACCO performance. Further, the study was in tandem with findings by Maina and Wambua (2019) and Otieno and Muturi (2020) who provided valuable insights into cost control and financial sustainability in SACCOs with their studies primarily focusing on efficiency measures without considering the potential trade-offs, such as service quality and member satisfaction. Additionally, the study was in agreement with studies by Wanjiru and Kinyua (2021) who established that cost leadership strategies enhanced SACCO membership through competitive pricing and reduced service charges.

Similarly, the study was in line with findings by Njoroge and Muthoni (2022) who highlighted digitalization as a cost-reduction measure which led to financial sustainability, and technological investment in SACCOs in Kisii County, Kenya. Additionally, the study is in agreement with a study by Kamau and Kimani (2022) who focused on procurement cost reduction and workforce management, linking them to service efficiency and financial sustainability. Nevertheless, their study did not explicitly examine cost leadership as a competitive

strategy, creating a research gap in establishing its direct effect on SACCO performance in Kisii County. Finally, the study is in agreement with a study by Ombati and Mwangi (2021) who provided valuable insights into cost leadership challenges in SACCOs, highlighting regulatory costs, technology barriers, and managerial inadequacies.

Conclusion

The study concludes that cost leadership is a significant positive predictor of financial performance of deposit-taking SACCOs in Kisii County, Kenya as high mean values suggest broad agreement that optimizing distribution costs enhances financial performance, reinforcing the importance of cost efficiency in operations.

Recommendations

- ☞ The study further recommends that while cost leadership strategies did not show meaningful effect on SACCOs, re-engineering operational processes through digitization and automation would reduce transaction and service delivery costs hence, performance.
- ☞ Further, the SACCOs would optimize branch networks by embracing alternative channels such as agency banking, mobile banking, and online platforms and shift focus to low-cost digital marketing strategies like social media, SMS marketing, and referral programs that target high-conversion segments.

Declarations

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