

# Effects of Competitive Strategy on the Performance of Deposit Taking SACCOs in Nairobi County, Kenya

Evans Vidija Sagwa<sup>1\*</sup> Appolonius Shitiabai Kembu<sup>2</sup>

1. School of Business and Management Studies, Technical University of Kenya, P.O. Box 52428-00200 Nairobi, Kenya

2. School of Business and Economics, Mount Kenya University, P.O. Box 342-01000 Thika, Kenya

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## Abstract

The Sacco sector has globally experienced growth and diversification in the range of products and services that the sector provides in the market. In Kenya, Deposit Taking Saccos (DTSSs) have been licensed to provide a wide range of products and services to their members and customers. The objective of this study was to establish the effect of competitive strategy on the performance of Deposit Taking Saccos in Nairobi County, Kenya. The study was anchored in the Resource Based View (RBV) of the firm. The study hypothesized that there is a relationship between competitive strategy and organization performance. Descriptive research design was applied. The population of the study – a census, comprised of all 42 DTSSs in Nairobi County, Kenya. The study involved obtaining data from every member of the population through a questionnaire. The study results support the position that competitive strategy has a positive effect on organization performance. This finding is consistent with the results of previous studies. This implies that policy makers, administrators and managers of DTSSs have to formulate generic competitive strategies for enhancement of organizational performance.

**Keywords:** Competitive Strategy, Performance, Deposit Taking Saccos (DTSSs)

## 1. Introduction

Globally competitive organizations depend on the uniqueness of their competitive strategies to gain competitive advantage. The business strategy that is adopted by an organization has to be supported so as to achieve the goals and targets that are set in the organization. An organization usually makes a choice of adopting a competitive strategy among three options (Porter, 1985), these options are cost leadership, differentiation and focus strategies. For an organization to adopt a cost leadership strategy for instance, its production or operational processes are expected to be efficient and effective to deliver goods/services to customers at competitive prices. Organizations have to choose from three generic competitive approaches (Porter, 1985). These approaches are cost leadership (low cost), differentiation and focus generic strategies. These strategies are known as generic because all businesses or industries can pursue them regardless of whether they are manufacturing, service or not for profit organizations. Organizations adopt generic competitive strategies as a foundation of business level strategy.

Organization performance can be measured in various diverse ways. These may include but not limited to shares growth rate, market share, productivity and profitability (Ichniowski et al, 1997). Shares growth rate is a ratio that measures the rate of change in shares from time to time or a specified period of time. The utilization of historical growth rates is one of the techniques of estimating future growth. Market share is a percentage of a market, which may be defined in terms of either units or revenue, accounted for by a specific entity. Market share is a key indicator of market competitiveness, that is, how well an organization is doing compared to its competitors.

Deposit Taking SACCOs play a major role in promoting a culture of thrift or saving and credit accessibility in the Kenyan economy. The DTSSs are expected to maintain high standards of accounting, resource management and transparency in the management of business. They are also expected to adhere to strict legal and regulatory guidelines in all their dealings and operations as they compete in a dynamic business environment that affects their performance. Deposit Taking SACCOs (DTSSs) operating in Kenya in general and in the Nairobi County in particular, have to compete in the market place with other banking and non-banking institutions to attract and retain a steady clientele. The licensed DTSSs have encountered challenges in regard to their performance contrary to the expectations of the stakeholders who are shareholders in the main SACCO that originate the DTSSs and others who include but are not limited to those who patronize the services provided by the DTSSs. These firms are expected to increase their share growth rates, expand their market share, increase productivity and profitability, which have not been realized by some of the DTSSs. Some of the underpinning factors that influence organization performance may be attributed to the HRMP adopted by the DTSSs and the type of competitive strategy adopted by the organizations. Hence the focus of the study that set out to shade light on grey areas and perspectives that had hitherto not been included in previous organization performance empirical studies.

### *1.1 Research Problem*

In the current business environment, different organizations including those that are operating in the SACCO subsector are striving for ways and means of attaining and sustaining a competitive advantage over their competitors through the uniqueness of their competitive strategies and operational systems. The competitive strategies that are adopted by an organization can affect its performance, which can be manifested in terms of shares growth rate, market share, productivity and profitability attained by the organization. The competitive strategy that an organization adopts can provide directions to an organization's efforts. These may take the form of cost leadership, differentiation or focus strategy to compete in the market that it operates in.

Deposit Taking SACCOs compete in a dynamic business environment that affects their performance. The SACCOs have to formulate and implement sound competitive strategies in order to compete effectively, to provide goods and services that cannot be easily imitated by competitors. Due to the liberalization of the market in Kenya, organizations are encountering challenges and are unable to operate effectively due to micro and macro-economic circumstances that are adversely affecting business. The DTSs are grappling with reduced share volumes, dwindling market share, low levels of productivity and reduced profitability. These challenges can be traced to the type of competitive strategies adopted by the DTSs.

Much research over the years has attempted to establish a positive link between HRMP and organization performance (Wan-Jing & Tung, 2005; Pfeffer, 1994; Ulrich, 1997), though doubts have been cast on the validity of some of the research findings. Most empirical studies (Delery & Doty, 1996; Guthrie, 2001; Huselid et al., 1997) have shown a positive relationship in the HRMP and organization performance relationship, the question that remains is how HRMP affects organization performance. Most of the empirical studies (Youndt et al, 1996; Huselid, 1995b; 1995; Delaney & Huselid 1996) have used moderating variables. The study utilized competitive strategy as an independent variable to attempt to explain how it affects organization performance. Previous studies (Pfeffer, 1994; Ichniowski et al., 1997) have been conducted in the west. A previous study in Kenya by (Sagwa, K'Obonyo, & Ogutu, 2014) on the firms listed on the Nairobi Securities Exchange found out that competitive strategy moderates the relationship between HRMP and performance of firms listed on the Nairobi Securities Exchange. The current study examined the effect of competitive strategy on organization performance, which had hitherto not been conducted among DTSs in the Nairobi County. Hence the need for the current study, which sets out to answer the question; what is the effect of competitive strategy on the performance of DTSs in Nairobi County, Kenya.

### *1.2 Research Hypothesis*

This research study sought to test the following hypothesis:

H<sub>1</sub> There is a relationship competitive strategy and organization performance.

### *1.3 Value of the Research Study*

The current study intended to provide insights into knowledge about different competitive strategies that are needed to make organizations perform successfully. It was envisaged that this study would contribute towards filling the gap in the body of knowledge in competitive strategies adopted by DTSs in Kenya. The study intended to establish a link between competitive strategies and organization performance, namely shares growth rate, market share, productivity and profitability. This should help in ensuring that investors who put their capital in the DTSs not only continue to reap the benefits and dividends of their investment, but also boost the confidence of other investors to commit their capital in the Deposit Taking SACCOs.

This study also intended to assess whether competitive strategy affects organization performance. The study sought to contribute further to previous empirical studies made in the area of competitive strategy and also generated a new framework for further research relating to the effect of competitive strategy on organization performance. The researchers envisaged utilizing competitive strategy and organization performance variables which have hitherto not been utilized in a single study as in the context of the current study. The findings of the current research study were expected to appeal to management practitioners and decision makers in DTSs and other organizations when formulating and implementing competitive strategies with an intention to improving and sustaining the competitive advantage of their organizations through appropriate competitive strategies. This should in turn make organizations create operational environments that are conducive to make them achieve superior and sustainable results.

## **2. Literature Review**

### *2.1 Theoretical Foundation of the Research Study*

The Resource Based View of the firm (Barney, 1991) provides a perspective that if competitive strategies are to create sustained competitive advantage, they must be difficult to imitate. Path dependency characterizes resources that are developed over time such that learning and experience provide cumulative advantage. A competitor of an organization in the industry cannot simply purchase an equivalent resource from the market.

Causal ambiguity describes resources whose content and essential ingredients are so subtle and difficult to fully comprehend that observers outside the organization are not able to reproduce in the competitors' organizations. The causal ambiguity of an appropriately aligned system that embeds effective strategy implementation throughout the organization is a good illustration (Lado & Wilson, 1994; Lengnick-Hall, 1998). This is what helps organizations to create competitive advantages through their unique competitive strategies. The Resource Based View or Theory has been of common interest for management researchers and scholars. A Resource Based View of an organization explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Smith and Rupp 2002).

### 2.2 Competitive Strategy and Organization Performance

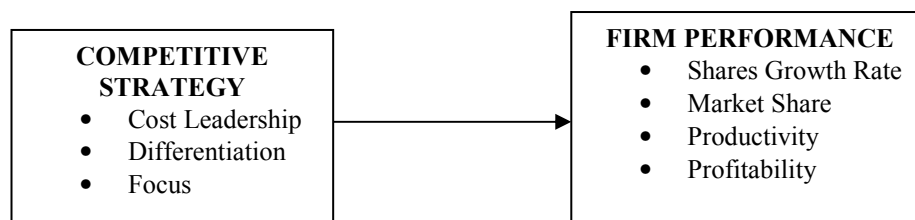
Empirical studies have indicated that there is a relationship between competitive strategy and organization performance. According to Porter, (1985) organizations that intend to achieve sustained competitive advantage can choose and implement a generic strategy. Cost leadership, differentiation and focus strategies may be adopted to enhance the performance of an organization. Kaplan and Norton (1996) have suggested that organization performance can be measured when strategy is translated into action and has a supporting role in the development of strategies.

The focus on alignment necessarily involves the possibilities for complementarities or synergies within an appropriately aligned system. These complementarities can be positive, where the "whole is greater than the sum of the parts," or negative, where elements of the system conflict (internally or externally) and actually contribute to destruction rather than creation of value. The more subtle the alignment requirements and more idiosyncratic to the particular organization, the more the competitive strategies can provide an inimitable strategic asset.

### 2.3 Conceptual Model

The conceptual model Figure 1 presents a schematic picture of the researchers' presumed perception of existing relationship among the variables of the study. The schematic diagram captures the linkages in the literature. The model suggests a relationship between competitive strategy – as the independent variable and organization performance as the dependent variable that may be influenced by competitive strategy.

**Figure 1: A Conceptual Model showing Competitive Strategy and Organization Performance**



**Source: Researchers (2015)**

The relationship indicated on Figure 1 was envisaged to exist in organizations, but the application of different competitive strategies tends to have implications on the performance of organizations. Competitive strategy which encompasses cost leadership, differentiation and focus is perceived to affect organization performance. This relationship between Competitive strategy and organization performance was under study to shade light on the aspects that underpin the Competitive strategy and organization performance.

## 3. Methodology

### 3.1 Research Design

After considering the various research designs described by different research experts for instance, (Cooper & Shindler 2006; and Mugenda & Mugenda, 2003), as well as the purpose of the study, the philosophical tradition adopted, the topical scope, researchers' involvement, time period over which the data for the study was be collected, the nature of data to be collected and type of analysis to be performed, the research design adopted for this study was a cross-sectional descriptive survey of all Deposit Taking SACCOs in Nairobi County in Kenya. Using the descriptive survey design, the researchers were able to describe the variables of study and derive predictive regression model for predicting the dependent variable.

### 3.2 Population of the Study

The population of the study comprised of all the 42 Deposit Taking SACCOs in Nairobi County as listed in the Kenya Gazette (SASRA 2015) - as at 3<sup>rd</sup> July, 2015. The study was a census, which involved obtaining information from every member of the population. The study targeted chief executive officers, managers, human

resource managers or other managers of equivalent level in the DTSSs.

### 3.4 Data Collection

The researchers used a questionnaire to collect data from respondents of the study comprising chief executive officers, managers, human resource managers or other managers of equivalent level in the DTSSs. These informants were considered to be more knowledgeable in the implementation processes of competitive strategies in their operational areas (Muganda, 2000). The researchers sought authority from the National Council for Science, Technology and Innovation (NACOSTI) to collect data. The researchers with the help of research assistants administered the data collection instruments mainly through drop and pick method.

### 3.5 Tests of Validity and Reliability

The key indicators of the quality of a data collection instrument are the validity and reliability of the measures. A pre-test was done by administering the instrument to sixteen managers conveniently selected. The sixteen managers were requested to evaluate the statement items for relevance, meaning and clarity. Content validation was also done by dividing the instrument into several sections. Each section was checked carefully to ensure that it conveys the necessary message and attracts the relevant feedback, as per the specific themes of the research objective and hypothesis.

The Cronbach's Alpha coefficient was used to measure the internal consistency of the constructs. The Alpha Coefficient of .700 or above was considered as acceptable measure reliability. Cronbach Alpha was used to test reliability of the instrument. A coefficient of 0.7 and above shows high reliability of data (Saunders, 2009). The Cronbach Alpha test of the instrument resulted in a value of 0.719 for competitive strategy and 0.705 for organization performance which were greater than 0.7 as indicated in Table 1 thus the questionnaire was considered reliable.

**Table 1: Reliability and Validity Test**

Constructs/Variable	Number of Statements	Cronbach Alpha	Comment
Competitive Strategy	9	0.719	Reliable
Organizational Performance	4	0.705	Reliable

### 3.6 Data Analysis and Interpretation

Simple linear regression analysis was used to establish the nature and magnitude of the relationship between variables; and to test hypothesized relationship. The coefficient  $r$  indicates the strength and direction of linear relationship between variables of the study. The relationship is strong where  $r=0.5$  and above, moderately strong when  $r$  is between 0.3 and 0.49, weak when  $r$  is below 0.29, and a correlation of 0 indicates no relationship.

## 4. Discussion

### 4.1 Pilot Study

A pilot study was conducted to find out if the respondents could answer the questions without difficulty. Respondents in the pretest were drawn from one deposit taking SACCO (equating to ten purposively selected respondents) perceived to be knowledgeable in competitive strategies and organization performance. They were asked to evaluate the questions for relevance, comprehension, meaning and clarity. The instrument was modified on the basis of the pilot test before administering it to the study respondents.

### 4.2 Response Rate

Out of the 42 respondents, 39 of them participated in the study. This constituted a response rate of 92.8 percent. All questionnaires received back were considered usable for the study, and thus represented an adequate response rate for the precision and confidence required in this study.

### 4.3 Demographic Information

This section covers the response obtained from the respondents in terms of the general information, that is, level of education, years of participation in the outsourcing process at the university, organization/institution workforce, outsourcing procurement system and rating of preference of outsourcing to the traditional way of procurement.

**Table 2: Demographic Information**

Description		Responses
Ownership of SACCO	Kenyan	37
	Foreign	2
	Other	0
<b>Total</b>		<b>39</b>
Designation of respondent	Chief Executive Officer	0
	Manager	7
	Human Resource Manager	12
	Others	20
<b>Total</b>		<b>39</b>
Number of employees	Up to 100	15
	101 to 200	18
	201 to 300	5
	301 to 400	1
<b>Total</b>		<b>39</b>
Years of operation in Kenya	10 Years & below	16
	11 to 20	13
	21 to 30	6
	31 to 40	3
	Above 40 Years	1
<b>Total</b>		<b>39</b>
Category of Sacco	Teacher based Sacco	3
	Government based Sacco	13
	Farmers based Sacco	3
	Community based Sacco	10
	Others	10
<b>Total</b>		<b>39</b>

Study findings in Table 2 indicate demographic profiling of respondents and their respective institutions. From the findings, 7 respondents were managers, 12 were human resource managers while majority 20 were from other departments i.e. loan officers, liaison officers. Such managers would be expected to have a wealth of knowledge in handling management issues. Majority of the organizations 37 were Kenyan owned while only two were foreign owned. The findings imply that ownership of a listed company may have an influence on the competitive strategies adopted and organization performance. Table 2 also shows that 15 institutions has an employee population of up to 100 employees; 18 institutions had employee population ranging from 101 to 200; 5 institutions had a population of the employees ranging between 201 – 300; and only 1 institution had employees raging between 301 – 400.

On the period they have been operating in the country, 16 firms have been in operation in the country for less than 10 years; 13 had operated for a period of between 11 to 20 years; 6 institution have operated for 21-30 years; 3 firms had operated for 31-40 years; while 1 institution have operated for the last 40 years. The study was also interested in the categories of Sacco based on their scope of operation since inception. From the findings, 3 were teacher based Saccos 13 institutions were Government based Sacco, 10 were Community based Sacco, Farmers based Sacco in the study were three and the rest (10) were others, consisting of faith based and profit oriented institutions.

#### 4.4 Descriptive Statistics

##### 4.4.1 Competitive Strategy

**Table 3: Competitive Strategy**

Variables	Mean	Std Deviation
<b>Cost Leadership Strategy (in my Sacco)</b>		
My Sacco pursues a low cost strategy	3.9487	.72361
My Sacco has developed distinct staff competencies	4.1538	.70854
Efficient materials management techniques are adopted in my Sacco	4.3333	.62126
<b>Differentiation Strategy (in my Sacco)</b>		
We serve a niche market in my Sacco	4.1795	.68333
A high rate of innovation is adopted in my Sacco	4.2564	.49831
High levels of technology are adopted in my Sacco	4.2105	.74100
<b>Focus Strategy (in my Sacco)</b>		
Our focus is on a specific market segment in my Sacco	4.1026	.78790
We focus on a small range of products/services in my Sacco	4.1026	.85208
We focus on customer responsiveness in my Sacco	4.4359	.64051
<b>Overall mean= 4.19; Overall Cronbach's Alpha= 0.831</b>		

The results of descriptive statistical analysis for cost leadership strategy, differentiation strategy and focus strategy are presented in Table 3. This measurement scale consisted of 9 items reflecting the perceived

competitive strategy adopted by a DTSS. Respondents were asked to provide answers on each item that was measured by a five point Likert scale ranging from 1 (very low) to 5 (very high). From Table 3 mean and standard deviation were used to test respondent ideas where Standard deviation is the square root of the variance. It measures the spread of a set of observations. The larger the standard deviation is, the more spread out the observations are while mean is the arithmetic mean across the observations. It is the most widely used measure of central tendency. It is commonly called the average. The mean is sensitive to extremely large or small values. The focus strategy item of on customer responsiveness had the highest mean at 4.4359 and standard deviation of .64051. The cost leadership item on pursues a low cost strategy had the lowest mean at 3.9487 and a standard deviation of .723361.

#### 4.4.2 Organizational Performance

**Table 4: Organizational Performance**

Variables	Mean	Std Deviation
Compared to your competitors in the previous year, what is your Sacco's shares growth rate	4.0769	.62343
Compared to your competitors in the previous year, what is your Sacco's market share percentage	4.0256	.62774
Compared to the previous year, what is the level of employee productivity in your Sacco	4.2051	.61471
Compared to the previous year, what is the level of profitability of your Sacco	4.1538	.70854
<b>Overall mean= 4.12; Overall Cronbach's Alpha= 0.765</b>		

Organizational performance was measured using four items namely; sales growth rate, market share, productivity and profitability. As shown in Table 4, the respondents rated the perceived extent to which the questionnaire items regarding organization performance were applied. A 5 – point Likert type scale was used to collect the responses, where 5 indicated 'strongly agree' and 1 indicated 'strongly disagree,' while 3 was taken as the midpoint. A mean of 3 and above represented agreement or favorable response with the given statement, and a mean of less than 3 denoted less favorable. The most significant factor was the statement that 'Compared to the previous year, what is the level of employee productivity in your Sacco' with a mean of 4.2051, while the least significant factor was the statement on market share, with a mean of 4.0256. However, the overall mean score for organizational learning as indicated in Table 4 by the respondents was 4.12 with Cronbach's Alpha of 0.765.

#### 4.5 Hypothesis Testing

##### Effect of Competitive Strategy on Organization Performance

**Table 5: Effect of Competitive Strategy on Organization Performance**

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	Competitive Strategy	.582 <sup>a</sup>	.339	.321	.34109	
ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.149	1	2.149	18.469	.000 <sup>b</sup>
	Residual	4.188	36	.116		
	Total	6.337	37			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.899	.750		1.199	.238
	Competitive Strategy	.766	.178	.582	4.298	.000

\*p < 0.05

a. Predictors: (Constant), Competitive Strategy

b. Dependent Variable: Organization Performance

This Table 5 provides the  $R$ ,  $R^2$ , adjusted  $R^2$ , and the standard error of the estimate, which can be used to determine how well a regression model fits the data. Analysis in table 5 shows that there exists a positive correlation between the predictor and dependent variable. Further coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables)  $R^2$  equals 0.339; that is, competitive strategy explain 33.9 percent of the variation in organizational performance of DTSS in

Nairobi County, Kenya leaving only 66.1 percent unexplained. The P- value of  $0.000 < 0.05$ ) implies that the model of organizational performance of DTSSs in Nairobi County, Kenya is significant at 5 percent significance. ANOVA findings ( $F(18.469) = p = .000 < .05$ ) shows that there is correlation between the predictor variable and response variable (organizational performance of DTSSs in Nairobi County, Kenya) hence the regression model is a good fit of the data. Constant = 0.899, shows that if competitive strategy is rated as zero, organizational performance of DTSSs in Nairobi County, Kenya rating would be 0.899.  $\beta = 0.582$ , shows that one unit increase in competitive strategy results in 0.582 units increase in organizational performance of DTSSs in Nairobi County, Kenya other factors held constant.

## 5. Conclusion and Recommendations

### 5.1 Conclusion

The study was based on the premise that the competitive strategy that is adopted in an organization affects organization performance. The study results support the proposition that generic strategies have a strong predictive effect on performance of DTSSs; with focus strategy having the greatest effect. Therefore focus strategy can help DTSSs to realize the most statistically significant superior performance when compared to DTSSs pursuing differentiation or cost strategies. From this analysis, the study concludes that it is possible for DTSSs to pursue different generic strategy types to realize superior performance. These findings are in line with literature that support the effect of competitive strategy on organization performance

### 5.2 Recommendations

Based on the findings and conclusions of the study, it is recommended that DTSSs should formulate generic competitive strategies to attain superior and sustained organizational performance. Future research can use a longitudinal research design to determine competitive strategies can affect organizational performance.

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