Logistics Leverage for a Sustainable Competitive Advantage in Savings and Credit Cooperative Societies (SACCOs): Case of Wakenya Pamoja SACCO Society Ltd., Gusii Region, Kenya

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Abstract

The paper focuses on Logistics Leverage for a Sustainable Competitive Advantage (SCA) in SACCOs, a survey of Wakenya Pamoja SACCO Society Ltd. (WPS). SACCO membership is on a declining trend, attributed to the stiff competition faced from mainstream commercial banks and MFIs who are perceived by clients to be more efficient and as having better operational and governance systems. SACCOs are now being prompted to rethink their overall strategies especially marketing, given the ever-shortening technology cycle as product, promotion or price strategies are quickly met with countermoves from the competition. The general objective of the study was to determine how strategic logistics/marketing linkages can be utilized by WPS to achieve SCA. The specific objectives were to: establish the logistics capabilities that can create SCA for WPS; evaluate the key structural issues that need to be resolved to achieve strategic logistics/marketing integration and; assess the inherent benefits of logistics leverage for the organization. The survey research design was used, and the target population included 482 members. Stratified sampling procedure was employed to obtain a sample size of 220. Data was collected using questionnaires and the weighted mean, frequencies and percentages were used to analyze it. The study established that: strategic corporate relationships and alliances, and technology were resources that could be developed into logistical capabilities resulting in SCA; key infrastructural issues to be addressed included the development of a competitive philosophy, the introduction of an agent to manage the connection among the functions, and getting support of the high level managers; and that increased market share and profitability are the inherent benefits of logistics leverage. In view of these findings, the study concluded that logistics leverage is a viable strategy and that there are other ways of obtaining competitive advantage that do not primarily involve product, promotion or price based strategies.

Keywords: *Logistics Leverage*, *Sustainable Competitive Advantage*, *Marketing Strategy*

Introduction

One of the biggest challenges companies face is meeting rising customer e xpectations in a competitive marketplace. Customers today, expect to get more for less; and if they don‘t get it, they‘ll move on to a company that can give it to them. Because of this, executives struggle to find the balance between lowering operational costs and meeting customer demands. Given factors such as homogenization of products, shortening product -to-shelf cycles and the ever shortening technology cycle, the way to sustainable competitive advantage may not lie in changes in the product, promotion, or pricing strategies, but rather in improving ancillary services. Such service improvements are most likely to yield a sustainable positional advantage in the market when implemented through changes in the corporate infrastructure - people, technology, facilities and/or strategic corporate relationships. Porter (1985), Bowersox, Mentzer, and Speh (1995), Bourlakis and Bourlakis (2006), and Markley and Davis (2007) give some insight into this with each referring to logistics as instrumental and central to providing Sustainable Competitive Advantage (SCA).

The Council of Logistics Management (1991) defined logistics as the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose. It is the process of anticipating customer needs and wants; acquiring the capital, materials, people, technologies, and information necessary to meet those needs and wants; optimising the goods - or service-producing network to fulfil customer requests; and utilizing the network to fulfil customer requests in a timely way (Tilanus, 1997). Simply put, logistics is customer-oriented operation management. Unlike a product change or enhancement, achieving logistics superiority is a capability difficult to imitate because it involves changes in the people, technology, facilities and/or strategic corporate relationships infrastructure of the company. The efficiency and effectiveness of the logistics operation has a considerable influence not only on the business performance but also on the customer‘s perception of the quality of the products and services provided by the plant. Accordingly, logistics is strategically important in many industries as it is c entral to achieving competitive advantage (Bowersox, Closs, & Cooper, 2010).

The Savings and Credit Cooperative Organization (SACCO) movement in Kenya is billed as the largest in Africa and among the top ten globally (Wanyama, 2009). With over KES 230 Billion in assets and a savings portfolio estimated at KES 190 Billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country‘s savings. SACCOs have thus become vital components of Kenyan‘s economy and social development. One of the major challenges facing SACCOs today is the considerable competition from banks and microfinance institutions (MFIs), which are perceived by clients to be more transparent, and as having better governance and operational systems. Banks and MFIs generally have much smaller Boards and management which allows them to make quick operational decisions to adapt to market changes. Banks have better strategic direction, better operational systems and transparent decision making processes. They are also quicker in developing new products and providing clients with quick access to funds as they are more liquid compared to SACCOs.

Founded in 1976, as a union banking section of Kisii Farmers Co -operative Union (KFCU), Wakenya Pamoja Sacco Society Ltd. (WPS) became autonomous in 1992, under the name Gusii Rural Farmers SACCO Society Limited (GFRS). Over the years, WPS has undergone major governance reforms, in its bid to remain competitive and has gone as far as opening up the common bond and modifying the by-laws to be more accommodative of the members‘ needs. These changes have, however, done very little to improve WPS productivity, as like most SACCOs, it continues to face the challenges of competition, together with weak governance and operational systems. A particular challenge, however, for WPS, is determining how to remain competitive and relevant given the stiff competition from other financial service providers. Any change in the product features, promotion, or price strategies has only a temporary impact in the financial market, as they are quickly met by countermoves from the competitors. A key marketing strategy that can potentially create and maintain SCA is termed as logistics leverage (Fugate *et al.,* 2008), which is defined here as the achievement of superior, infrastructure-based logistics performance, which - when implemented through a successful marketing strategy - creates recognizable value for members. Achieving SCA through leveraging logistics is likely to achieve and maintain competitive superiority. The study sought to establish the relationship between logistics leverage and the achievement of SCA for WPS.

Study Objectives

The general objective of the study was to determine how strategic logistics/marketing linkages can be utilized by WPS to achieve and maintain SCA. The specific objectives of the study were to: establish logistical capabilities that can create SCA for WPS; evaluate key infrastructural issues that need to be resolved to achieve strategic logistics/marketing integration; and assess the inherent benefits of Logistics Leverage for WPS.

Literature Review

Businesses find ways to remain competitive by implementing strategies that assure a sustained competitive advantage. A firm experiences competitive advantages when its action s in an industry or market create economic value and when few competing firms are engaging in similar actions (Barney, 2002). Barney goes on to tie competitive advantage to performance, arguing that a firm obtains above - normal performance when it generates greater-than-expected value from the resources it employs. How to maintain such an advantage given factors such as the homogenization of products and shortening product - to-shelf cycles is a question that most organizations ask. A careful review of the work by Porter (1985), Bowersox *et al*. (1995), Bourlakis *et al*. (2006), and Markley *et al.* (2007), reveal some insights. Each refers to logistics as instrumental and central to providing SCA. Unlike a product change or enhancement, achieving logistics superiority (because it involves changes in the people, technology, facilities and/or strategic corporate relationships infrastructures of the company) is a capability difficult to imitate.

The capability of the logistics system is a critical part of the firm‘s success in times of time – and quality – based competition (Mentzer *et al.,* 2004). Logistics capabilities are demonstrated to be a source of competitive advantage (Lynch *et al.,* 2000; Zhao *et al.,* 2001). Thus, a superior logistics channel structure can lead to competitive advantage (Markley, 2007), and the infrastructure nature of this superiority makes it difficult to imitate. Therefore, the competitive advantage is sustainable. If logistics is to help a firm enhance competitive position, then it must be p roperly positioned within the firm's competitive philosophy or, to use Drucker's (1994) terminology, within the firm's theory of the business. Drucker (1994) notes that a firm's long-term success depends on the relevance of its business theory and the resulting stream of strategic decisions that lead to the development of appropriate core competencies.

In the 1990s, having realized that traditional sources of competitive advantage, such as natural resources, access to financial resources, technology, protected or regulated markets and economies of scale had become increasingly easier to imitate and thus lost their strategic power, strategy researchers and practitioners started searching for new strategic possibilities. As a result a resource -based view (RBV) of the firm was developed, in which the focus of strategy specialists shifted from the external environment to the internal context of the organization, and the greatest emphasis was laid on the crucial role of organizational resources and capabilities, which were viewed as a strategic foundation of the organization and the primary source of competitive advantage (Barney, 1991; Grant, 1991; 1998). Proponents of this view argued that organizations should focus on acquiring, deploying, developing, and retaining their resources rather than the competitive position in the market (Colbert, 2004).

Bourlakis *et al.* (2006) discussed the importance of logistics to firm strategy, emphasizing that integrating logistics activities is critical to competitive effect. In summary, today's competitive environment is one in which logistics activities are well positioned to help firms obtain a competitive advantage. A comprehensive approach to planning combined with a high level of information availability can help the firm allocate and develop its resources into such a distinctive value -added logistics capability (Sandberg *et al.,* 2011). In spite of marketing and logistics holding a strong and mutual interdependence, it is common to find barriers in the relationship between them in the practical field, as well as in the academic field (Svensson, 2002). In relation to the perception each function has of the other, Ballou (2006) highlights the fact that marketing and manufacturing professionals ignore the importance of logistics. Organizations that maintain collaborative relationships between marketing and logistics work easily with the mutual understanding of responsibilities, shared ideas and information, as well as dedicating themselves to joint problem solving (Ellinger, 2000). On the other hand, the lack of integration between these functions may affect cooperation, resulting in poor organizational performance.

As to the ways to reach integration, Murphy *et al.* (1996) found in the interfunctional integration literature, 14 managerial techniques that may be utilized to improve the marketing and logistics' cooperation. These include: support of the high level managers; common goals and performance indicators; jointly made work projects; agent that manages the connections among the functions; information sharing; coordination committees to discussing issues of interest of the two functions; logistics training for marketing's people and the inverse; mutual negotiation for problem solving; incentive systems evolving sharing of earns and risks; unify the marketing and logistics' departments; job rotation among professional of the two functions; promotion of informal interaction among two function professionals; to use a neutral interceptor (third party or from another area) to solve problems from the two functions; and the implementation of a cooperation philosophy. The support of the high level managers, the information sharing and a cooperation philosophy implementation, are the more widely utilized techniques (Murphy *et al.,* 1996). The implementation of these techniques demands more changes in the corporate culture, than formal changes, or substantial expenses. The foundation of future marketing and logistics integration is strategic. The focus of logistics has been and will primarily continue to be upon cost drivers, i.e. skills and resources that generate efficiency.

The integration of marketing and logistics is necessary to bring the logistics sources of advantage into the realm of effectiveness, or drivers of differentiation . This will only occur and result in positional advantages if the leverage logistics can bring to marketing is realized. Where this integration is accomplished, strategic positioning of the marketing/logistics integrated firm as cost efficient and customer effective will result (Daugherty *et al.,* 2009). By focusing on logistics competency, the leading logistics performers are providing tangible and significant benefits to customers (Bowersox *et al.,* 2010). The net result is the creation of a meaningful competitive advantage. The exploitation of logistics competence offers a meaningful way to create value-added services not achievable in other ways.

A major premise of this work is that logistics competency can be created, but unless the firm is positioned to exploit it, little strategic significance will result. Logistics leverage has to be consciously created through the actions of marketing and logistics managers within the firm. Key issues to be resolved include the creation of value-added services, top management vision, strategic alliances and partnerships, interfunctional teams, the orientation of marketing, organization structure, marketing intelligence, channel member programs, and the nurturing of sole-source relationships. Once these issues are resolved, the firm will be positioned to effectively integrate logistics competence into marketing strategy to create sustainable differential advantage. The most popular indicators of marketing effectiveness and competitive advantage are market share and profitability. Leveraging logistics success can reduce costs and increase customer satisfaction and, therefore, positively influence the firm's profitability. Profitability is a desirable outcome because it creates shareholder value. When consistently and substa ntially maintained, it ensures the firm's longevity (Bourlakis *et al.,* 2006; Markley *et al.,* 2007).

Conceptual Framework

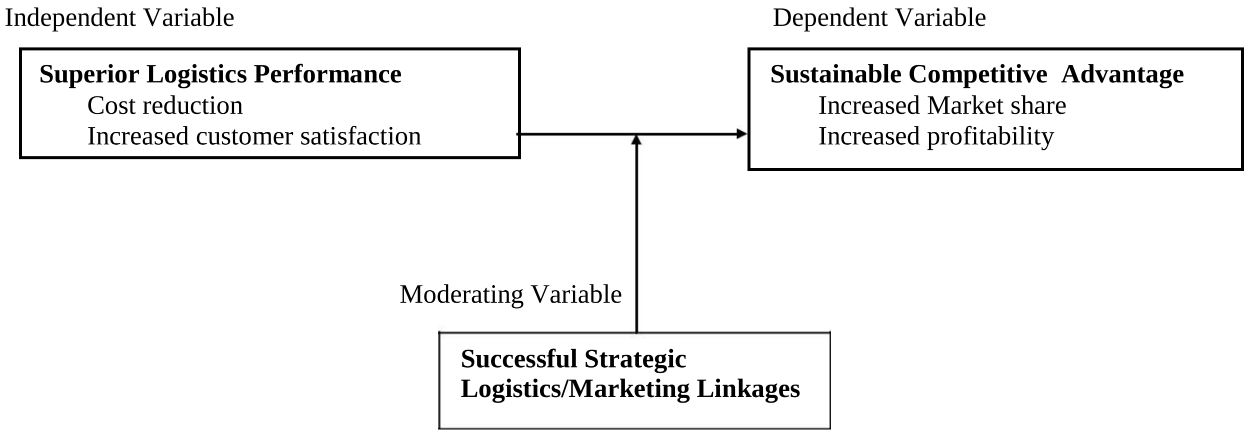

Figure 1. Conceptual Framework

Source: Researcher's Own Conceptualization (2012)

Methodology

The study was conducted through the survey research design. The study area was within the Wakenya Pamoja SACCO Society Ltd (WPS) headquarters, located in Kisii County. The SACCO had a membership of approximately 102,000 members both dormant and active including delegates (directors and non-directors), and members of staff (Managers and other employees). The study targeted a population of 482 WPS members, staff and delegates. The members only included those with savings amounting to KES 300,000 and above, based on the December 2011, WPS Statement of Deposit Return. Stratified sampling was used to select the sample size and respondents for the study, a s this technique ensured that subgroups were proportionately represented and accounts for differences in characteristics therein (Onen & Oso, 2008). Yamane (1965) simplified sample size calculation formula was used to arrive at the sample size of the study . A questionnaire comprising both the closed and open ended questions was used as the main data collection tool, as the study was primarily concerned with the views and opinions of the respondents. Data was collected within the duration of two weeks. The weighted mean, percentages and frequency counts were used to analyze the data. The weighted mean was used to analyze responses on likert items. Percentages were used to show the particular frequency of respondents preferring a particular alternative, while data from open-ended questionnaire items was grouped into broad themes that were converted into frequency counts. Results were summarized in tables, charts and graphs, giving implications of logistics leverage on sustainable competitive advantage for WPS.

Results and Discussion

All the 220 questionnaires were completed and returned to the researcher, representing a 100% response rate, which very good for use in the research (Mugenda & Mugenda, 2003). The first objective was to establish logistical capabilities that can create SCA for WPS. The results indicated that respondents were of the opinion that strategic corporate relationships and technology with a mean of 4.14 and 4.00 respectively, were factors that if improved/changed/enhanced would result in SCA for WPS. They ranked facilities and people at 3.73 and 3.50 implying that while these were logistical capabilities that would be utilized, the final outcome would not have a greater impact like the former. The key to winning and keeping customers is to understand their needs better than competitors. A company gains competitive advantage by the extent to which it can position itself as providing superior value to selected target markets as compared to competitors. If a company positions its products as offering the best quality and service, it must deliver on the promised quality and service. Thus, positioning begins with actually differentiating the company's marketing offer so that it will give consumers more value than competitors do.

The second objective was to evaluate key infrastructural issues that need to be addressed to achieve strategic marketing/logistics integration. The study established that WPS did not have a competitive philosophy in place. It also established that only 60% of the directors an d employees clearly understood the specific duties, roles and responsibilities of the logistics and marketing departments. While it was agreed that there was a collaborative relationship between the two departments, introducing an agent that manages the connections among the functions, the support of high level managers and setting of common goals and performance indicators were indicated as the most effective techniques that would be used to improve the relationship with a mean of 2.76, 2.65 and 2.59 respe ctively. Drucker (1994) notes that a firm‘s long term success depends on the relevance of its business theory and the resulting stream of strategic decisions that lead to the development of appropriate core competencies. The study revealed that the management of WPS did not clearly understand the firm‘s business theory that is, what to do and how to do it better than anyone else, as they were rated average on their understanding of the five key issues raised by Drucker (1994) that are critical to determinin g the relevance and effect of the firm‘s theory of business.

The third objective was to assess the inherent benefits of logistics leverage for the organization. The study indicated that WPS has the ability to build logistics competence, with the ability to change its marketing intelligence being ranked the highest with a mean of 4.44. If logistics, however, is to help a firm enhance competitive position, then it must be properly positioned within the firm‘s competitive philosophy. It is only after this is addressed that WPS will be able to accrue the inherent benefits of logistics leverage that the study revealed to include creation of value for members, increase of the market share and profitability, together with facilitating for the overall reduction of the organizational costs. Logistics leverage can help a firm achieve and maintain positional advantage through both types of competitive advantage conceptualized by porter (1985). For WPS, it provides a way to control costs, achieve differentiation and as such come up with strategies that are all inclusive and cannot be copied by competitors as they are infrastructure based.

Conclusion

The study established that: the strategic corporate relationships and alliances, and technology were corporate resources that could be developed into logistical capabilities resulting in SCA for SACCOs, given their limited resources. This complex bundling of resources is to be considered as valuable, rare and difficult to imitate for competitors (Barney & Clark, 2007). Key in frastructural issues to be addressed to achieve strategic logistics/marketing linkages include the development of a competitive philosophy, and using the techniques of introducing an agent that manages the connection among the functions and support of the high level managers; and that increased market share and profitability are the inherent benefits of logistics leverage. In view of these findings, the study concluded that logistics leverage is a viable aspect of marketing strategy.

The study also concluded that changes in corporate infrastructure are the keys to the sustainability of logistics leverage. For example, strategic corporate relationships can lead to an alliance that the competition cannot match. A logistics alliance is an extension of the supe rior skills of each partner to do value-added activities within the supply chain. Such an alliance can also lead to innovative new products and processes that become valuable resources in the marketing strategy. The challenge to managers is to identify such infrastructure sources of competitive advantage in their logistics systems.

Finally, no success can be achieved without strong coordination and collaboration between marketing and logistics. Much of the logistics leverage plans are driven by insightful market research and the superior logistics performance will not have an impact upon the customer without effective marketing communication. Managers striving to achieve positional advantage through logistics leverage must recognize the role logistics can play in marketing strategy and realize that this role involves inextricably intertwining the two functions to achieve successful marketing strategy, one that has been demonstrated to result in more efficient operations, more satisfied customers, increased ma rket share, and high profitability.

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