RESPONSES OF SACCOS BASED IN NAIROBI TO CHANGES IN THE EXTERNAL ENVIRONMENT

BY

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DECLARATION BY THE CANDIDATE

I declare that this research project is my original work and to the best of my knowledge, it has not been presented for examination to any other University.

Signature .... Date 10/11/09

Opondo Dickens Amisi.

D61/9258/05

This research project has been forwarded for examination with my approval as the University Supervisor.

Signature .... Date 13/11/09

Prof. E. Aosa

SCHOOL OF BUSINESS

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DEDICATION

This project is dedicated to my wife Martha and daughter Dorcas who together, never wavered in their unequivocal resolve to support me in my quest for higher education. To them I say a big thank you and may the Almighty God give them a long life to enable them enjoy the fruits of their labour.

ACKNOWLEDGEMENT

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Thanks also go to all my lecturers for bringing me to this level of knowledge. I must also mention my MBA colleagues for their support and encouragement throughout the course, the ministry of cooperative Development and Marketing Colleagues for their support and above all very special thanks go to the Almighty God for being a constant source of inspirational guidance.

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ABSTRACT

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment leads to a mismatch between what the organization offer and what the market demands (Ansoft and Mc Donell, 1990). Environment scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to emergence of opportunities and threats.

This study had two objectives which are, first, to determine the responses of Saccos operating in Kenya to cope with the changing business environment and second, to determine the challenges facing the Saccos in Kenya in responding to environmental changes

To do this a survey was conducted on 60 Saccos using structured questionnaire with a few open ended questions. The response rate was 80%.

The results of this study revealed that challenges poised by competitive environment were felt by the Saccos surveyed to a very high extent. It was also clear from the study that majority of the Saccos surveyed concentrated on operational issues at the expense of strategic ones Not much effort has been expended on exploring new products by the Saccos surveyed.

The issues have very serious ramifications for the future developments and growth of the Sacco sub sector. Since the Sacco sub sector has been identified by he government of Kenya as a formidable Institutional framework for resource mobilization and capital accumulation these issues must be addressed urgently.

This study concludes that Sacco societies should constantly scan the environment to help them in coming up with flexible strategies for future developments An open approach system should be adopted to encourage creativity and innovation so that

new products can be introduced to take care of the changing needs of members. Sacco societies should adopt a favorable dividend policy that encourages building of capital for investments purposes from internal operations instead of over relying on the external credit facilities for the same.

The study was restricted to Nairobi area due to resource and time constraint and the sample considered for the study was general. These factors are likely to be different in other provinces in Kenya and hence the conclusions might not necessarily be applicable to rural Saccos.

There is an acute need for further research to focus on other areas and be sector specific in order to come up with recommendations on responses of Saccos in public, parastatal and informal sectors. Sophisticated statistical and econometric tools be utilized to find out the minute details that might have escaped in this study due to the simple nature of the statistical method adopted for analysis

CHAPTER ONE: INTRODUCTION

1.1 Background

People of limited means form Cooperative Societies to achieve economic strength. Membership is voluntary. In addition to making equitable contributions to share capital, they democratically control the business, accepting a fair share of the risks and benefits of the undertaking (International Labour Organization, 1978). Modern co-operatives started in Europe over 150 years ago and have spread to most parts of the world. Currently, there is hardly any country where cooperatives do not exist (Gachara, 1990).

The Cooperative movement worldwide has persistently experienced management problems despite various governments' assistance. For example, in 1997 the Kenyan government liberalized the cooperative sector to enable the societies conduct additional businesses besides the core activities as permitted by law. Subsequently, this opening up of the cooperative sector continues to subject the sector to stiff competition and therefore call for a new management approach comparable to the private sector. During this period, it was believed that the cooperatives had matured to be self reliant. It was also clear that the past nurturing of the cooperative movement and extensive benevolence of the government was no longer justified or sustainable. Further, the continued subsidy forestalled need for strategy development to respond to a turbulent external environment.

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment leads to a mismatch between what the organization offer and what the market demands (Ansoff and Mc Donell, 1990). Environment scanning enables managers to identify potential developments that could have an important impact on an industry conditions leading to emergence of opportunities and threats.

1.1.1 Organization Dynamics And Responses

In order for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment (Peace and Robinson. 1997). These changes in the environment can potentially impact negatively or positively on institutions.

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. The responses may include asset and liability strategy, market strategy (segmentation, price, delivery and distribution of products, promotion), human resource strategic (staff costs, staff quality), Information Technology (IT) strategy and organizational strategy (operational procedures, internal control systems). Failure to effectively adapt the organization to its environment leads to a mismatch between what the organization offers and what tha market demands (Ansoff and Mc Donell, 1990).

According to Thompson and Strickland (1993), environment scanning enables organisations to identify potential developments in an industry that could have an important impact that exposes it to opportunities or threats. This will help the managers to develop appropriate strategies given the industry competitive situation. The strategic challenge of the 1990s is thus to reduce costs while simultaneously improving quality particularly differentiating the human resource strategies to support the strategic direction of the organization. Luftman (1996) adds that the way a firm views its businesses, customers and competition is critical to successfully aligning its business and IT strategy. IT is used to automate processes and to augment the skills of the organizations staff.

Rayport and Sviokla (1995) stated that competition is defined along two dimensions:- the physical world of resources and a virtual world of information. Information supports and enhances every activity in the organization and it can be a source of added value and hence competitive advantage, provided organizations are able to draw that value. Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly adapt to the feedback before their rivals They exploit the potential of strategic as well as competitive and operating information systems. Some of the information technology variables that can influence a firm's response to competition include the usage of real-time systems, extent of interconnectivity of distribution channels and the efficiency of the telecommunication systems.

One of the major activities of restructuring is business process engineering. Hammer (1996) argues that companies can dramatically improve their efficiency and quality by focusing on customers and the processes that create value for them. Processes have come to be more important than their products and are in fact defining the market places in which the companies compete. Outsourcing for instance, would enable an organization to concentrate on its core business while benefiting from the cost efficiencies of those companies that specialize in the outsourcing activity. Firms can design their strategies based on their processes, for instance, through intensification where processes are mapped and improved to enhance customer service or through extension where strong processes enable entry to new markets. Wilson and Rosenfell (1990) define organization structure as the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns, thus structure distinguishes the parts of the organization and delineates the relationship between them.

1.1.2 The Sacco Sub Sector In Kenya

Savings and Credit Cooperative Organizations (Saccos) form an integral part of the overall cooperative movement in Kenya. The Sacco system controls assets estimated at Ksh.100 billion and have lent out about Ksh.150 billion to over 2.5 million members. the Sacco sector hold approximately 15% of the market share in Kenya. According to Government of Kenya (GOK) Cooperative Annual Statistics (2007), there are 4900 registered Saccos with an estimated 4 million members representing 11% of the adult population in Kenya, a share capital and deposits base of Ksh.120 billion accounting for 35% of the national savings, loans outstanding amounted to Ksh.140 billion. Saccos are categorized into different classes based on their common bond for example, salaried employees, *jua-kali*, cash crop, transport, community or trade based Saccos.

The Sacco system is a mutual membership organization focusing on the mobilization of domestic savings in form of shares and deposits which constitute the basis for extending credit to members. Credit is usually accessed as a multiple of the amount of deposits/shares held by a member. Saccos have grown rapidly over the last 40 years in terms of commercial strength, membership and products or services (GOK 1997).

The main focus of the Sacco initiative is to offer affordable financial services on a cost-effective basis to cover a large number of the cooperative membership, test alternative financial delivery mechanisms and depending on the prospects and potential, synergize the tested business initiatives with the formal financial system. Sacoos also develop alternative systems for accessing and securing credit instead of utilizing the formal collateral system thus improving the welfare of the vulnerable income groups especially women and the youth (GOK, 2007).

The Saccos are guided by their by laws than by the cooperative societies Act. For the cooperative societies Act is very scanty on its Sacco operational guidelines. It's for this reason that the Central Bank of Kenya is concerned. A comparison of the operations of the Saccos in Kenya with what happens elsewhere exposes serious flaws in the business which unfortunately is clearly outside the control of any law. The only safeguard the Sacco members have is that the leadership in all Saccos is local and many people would consider twice if they were to mess a local organization where they have their interest. This level of trust will not hold in a scenario where large funds are held by a few people (GOK 1998).

The co-operative societies in Kenya including the Saccos are supervised by the Government through the office of the Commissioner for Co operative Development as provided for in an Act of Parliament, Cap 490 which was amended in the year 2004 to provide a means for controlling widespread or rampant mismanagement of the co-operative resources by the elected committee members. The amendment was also to check on non remittances of the Saccos deductions by the various employers resulting from the onset of liberalization of the sector (GOK 1997).

There are a number of challenges facing the Kenyan Sacco sub-sector despite their rapid expansion. These include outdated legislation and regulation i.e. the growth in sophistication of financial services provided by the Saccos has not been supported by the development of a satisfactory legal and regulatory framework, weak accounting systems and lack of financial discipline, weak institutional capital indicated by Sacco solvency below 100%, lack of monitoring of loan delinquency due to improper loan granting, poor loan recoveries and poor record keeping, need to develop relevant IT systems. There is also high levels of non-earning assets due to Saccos having invested in buildings and land that do not contribute directly to the core activities, poor asset liability management as some Saccos borrow at high interest rates only to lend to their members at lower interest rates and the antiquated governance structures that allow abuse of office by the bosses. The problems have led to fears that service delivery of the Sacco products are on downward trend in most Saccos. This can be depicted by the higher numbers of Sacco members seeking credit facilities elsewhere (Kibanga, 2004).

Other threats that are unique to the Sacco fraternity in Kenya which has enjoyed unlimited degree of protection from the government because of their welfare nature include stiff competition from the credit lending institutions, massive retrenchment in several companies due to depression of the world economies which forces the Saccos to refund substantial part of the share capital and increased rates of interest on loans which is unaffordable to most of the remaining members. The government has also formulated policies that tightly regulate the Saccos (GOK 2007).

In the government's economic blueprint, Vision 2030 aims to have "A globally competitive and prosperous nation with a high quality of life by 2030". The vision has three pillars; economic, social and political pillars. The envisaged annual rate of economic growth (GDP) to 2030 is 10%. The vision identifies financial services as one of the important drivers to enable the attainment of that goal. Financial services also have backward and direct linkages with the agricultural sector whose current direct contribution to the GDP is about 25%. With a membership of over 5 million, the Sacco society sector impacts directly or indirectly on the livelihoods of over 20 million people which translates to more than half of the Kenyan population estimated at 37 million. This sector is therefore critical for economic development and achievement of the vision and the implementation of the national Sacco response strategies will contribute to an "efficient and globally competitive Sacco's system for driving high savings and financing investments in both rural and urban centres".

1.2 Statement of the Problem

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. Failure to effectively adapt the organization to its environment leads to a mismatch between what the organization offer and what the market demands (Ansoff and Mc Donell, 1990). Environment scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to emergence of opportunities and threats.

The Sacco subsector in Kenya faces a number of threats which include outdated legislation and regulation, stiff competition from other lending institutions, massive retrenchment of their members in several companies due to depression of world economies. These challenges are unique to the Sacco fraternity in Kenya which has enjoyed unlimited degree of protection from the government because of their welfare nature. Given that Saccos continue to receive deposits from their members against a background of high moral hazard and cut-throat competition from the private sector, the potential collapse of the Sacco sub sector is inevitable. Not much research has been conducted to investigate the response patterns of Saccos in the face of these major challenges and threats. It is important for the Saccos to realign their businesses to take advantage of the emerging opportunities and threats.

Recently, there has been growing interest among researchers on the subject of responses by organizations to relevant environment changes. Kandie (2001) undertook a study on the strategic responses to competition by Telkom Kenya Ltd and Kathuku (2004) also undertook a study on the strategic responses to changes in the environment by the Co-operative Bank of Kenya as the second largest Commercial Bank. They both found out that the organizations had made some strategic adaptations in its products, markets, and technology as well as making strategic alliances.

Although a lot of research has been done on strategic responses locally and globally, none has focused on the Sacco fraternity in Kenya. Saccos being 4,900, they are key in mobilizing savings and extending credit facilities to a big percentage of the population who are their members. What responses have these Saccos in Kenya adopted to cope with the changing competitive environment? And what challenges face the Sacco sub sector in strategy implementation?

1.3 Objectives of the Study

(a) To determine the responses of Saccos operating in Kenya to cope with the changing business environment.

(b) To determine the challenges facing the Saccos in Kenya in responding to environmental changes

1.4 Importance of the Study

As Omwenga (2001) unpublished report puts it, adoption of sound reform package is an essential pillar of a vibrant co-operative sector; one that promotes integrity and operational efficiency as well as serving as an anti-corruption strategy to prevent the decay in the Sacco sub sector. At one time the Saccos in Kenya were contributing about 45% of the GDP but this achievement declined due to unchecked practices.

The study will help the Ministry of Co-operative Development officials in understanding the implementation criteria that suits the Kenyan Saccos sub sector environment. the management of the Saccos will equally benefit from the study when they are guided on the preference or priority of the reform package. The ordinary members of the co-operative societies also stand to enjoy improved service delivery as a consequent of introduction of the compliance standards that suit their case.

The academicians will also gain substantially as the literature will add to the existing body of knowledge and the management consultants who provide technical assistance to the Saccos will use the findings from this study as a source of pertinent information on the extent of the effectiveness of the responses adopted by Saccos to competitive pressure as well as limitations of such responses.

CHAPTER TWO: LITERATURE REVIEW

2.1 *Organizational Responses to Changes in the Environment*

The dynamism of the environment implies that organizations have to constantly redesign their strategies in order to remain competitive. The concept of organizational responses to environmental changes can be viewed from two dimensions; the strategic responses and operational responses. The strategic responses are the unifying theme that gives coherence and direction to the actions and decisions of an organisation. It guides the organisations to achieve superior performance through establishing competitive advantage. It may be market penetration; product development or diversification.

The operational responses may include asset and liability strategy, human resource strategy (staff costs, staff quality), Information Technology (IT) strategy and organizational strategy (operational procedures, internal control systems). To survive and succeed in an industry, the firm must match the aggressiveness of its operating and strategic behaviours to the changeability of demands and opportunities in the market place (Ansoff, 1987).

Failure to effectively adapt the organization to its environment leads to strategic problem. Such a problem will be evidenced by a mismatch between what the organization offers and what the market demands (Ansoff and McDonald, 1990). Hunger and Wheeler (1999) view strategic management as a set of managerial decisions and actions that determine the long run performance of an organization. It emphasizes the monitoring and evaluation of opportunities and threats in the light of the strength and weaknesses of the organization. Strategic management has also been defined as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives (David, 2001).

It implies focusing on integrating management, marketing, accounting, research and development including information systems to achieve organizational success. All the definitions of strategic management emphasize the fact that it is dynamic and concerned with providing and continuously adjusting the means by which organization can effectively cope with environmental change. Therefore, strategic management is a continuous and a dynamic process.

The achievement of superior efficiency quality, innovation and responsiveness enables an organization to create superior values and attain competitive advantage (Hill and Jones, 2001). Strategy can be defined as the establishment of the long-term goals and objectives of an organization including the taking of actions and allocation of resources for achieving these goals (Chandler, 1962). Due to the scarcity of resources, the strategy that is chosen should be one that optimizes these resources, in the pursuit of the organizational goals and objectives. Strategy can be seen either as the building of defences against competitive processes or as the finding of positions in the industry where competitive forces are weakest (Pearce and Robinson, 1997). Grant (2000) adds that the ability to identify and occupy attractive segments of an industry is critical to the success of an organization.

2.2 *Strategic Responses*

Andrews (1971) conclude that strategy is defined along a pattern of objectives, purposes or goals and the organisation's major policies. Plans for achieving these goals are stated in such a way that define what business the company is in or is to be in and the kind of company it is or is to be. Strategy therefore, not only focuses on the goals and objectives of the organization and the means of achieving them but also gives an indication of the nature of the company and its business both in the present and in the long run.

Hill and Jones (2001) conclude that the strategies an organization pursues have a major impact on its performance relative to its peers. Porter (1980) states that strategy is basically about competition and the means by which an organization tries to gain a competitive edge. According to Ohamae (1983), the only purpose of strategic planning is to empower an organization to efficiently gain a sustainable competitive edge over its competitors. Therefore corporate strategy implies an attempt to change in the most efficient way, a company, strength relative to that of its competitors.

In Ansoff' (1965) model, strategy is designed to transform the firm from the present position to the position described by the policies and objectives subject to the constraints of the capabilities and the potential of the organization. This model specifically stresses two concepts. Gap analysis is designed to evaluate the difference (gap) between the current position of the firm and its objectives. The organization chooses the strategy that substantially closes the gap. Synergy refers to the idea that firms must seek product market posture with a combined performance that is greater than the sum of its parts more commonly known as –
"2 + 2 =5" formula (Ansoff, 1965).

A significant change in the environment and no shift in the strategy will lead to gaps and these gaps lead to malperformance. As such strategies must match with the environment and the internal capability must match with the strategy. The four types of synergies Ansoff (1965) is referring to are marketing synergies, operating synergies, investment synergies and management synergies. There are a number of strategic responses.

Market penetration occurs when a company enters a market with current products. The best way to achieve this is by gaining competitors customers (part of their market share). Other ways include attracting non users of your product or convincing current clients to use more of your products/service through advertising or other promotion techniques.

Product Development happens when an established product in the market place is targeted to a different customer segment as a strategy to earn more revenue for the firm. This may involve moving into another region or expanding into another country. It can also be implored by connecting through an alliance.

Diversification involves entering product market different from those in which a firm is currently engaged. It can also be implemented by acquisition of a new business venture, outsourcing where the firm hires products/services of another firm which it doesn't have a complete competitive advantage in producing including strategic alliances are equally important responses.

These strategic responses illustrate in particular, that the element of risk increases the further the strategy moves a way from known product and existing market, product development and market extension, diversification and market penetration. Diversification usually requires new skills, techniques and new facilities. As a result, these responses almost invariably lead to physical and organizational change in the structure of the business which represent a distinct break with past business experience. For this reason, amongst others, most activities revolve around penetration and the Ansoff

Matrix despite its fame is usually of limited value although it does always offer useful reminder of the options which are open.

2.2 Operational Responses

Operational responses are concerned with setting broad policies and plans for using the resources of the firm to support it's long term competitive strategy. It's very comprehensive and integrates the corporate strategy. The operational strategy focus on giving high service quality (Chase et al, 1988), low production costs (Dooner, 1991), having flexible facilities and process (Garvin, 1987) ability to deliver with speed (Dooner, 1991) and innovativeness (Unilever, 2001).

Quinn (1980) identifies strategy as a plan that puts together an organization, marshal and allocates its resources in a unique way on the basis of its relative internal competencies and limitations, expected changes in the environment and contingent actions by the competitor. There are a number of operational responses.

2.2.1 Restructuring

Wilson and Rosenfold (1990) defined organization structure as the established pattern of relationship between component parts of an organization outlining Communication, control and authority patterns, thus, structure distinguish the parts of the organization and delineate the relationship between them. One of the major activities of restructuring is business process reengineering. Hammer (1996) notes that companies can dramatically improve their efficiency and quality by focusing on customers and the processes that create value for them. Processes have come to be more important than their products and are infact defining the market place in which the companies compete, outsourcing for instance, would enable an organization to concentrate on its core business while benefiting from the cost efficiencies of those companies that specialize on the outsourced activity. Firms can design their strategies based on their processes, for instance, through extension where strong processes enable entry to new markets.

Senior (1997) notes that there are various catalysts for organizational changes such as restructuring. These triggers may include the purchases of new IT equipment or system, business process reengineering through process intensification/extension, the redesign of a group of jobs, staff right sizing and subsequent staff cutbacks as well as staff redundancies. With regards to the number of levels in the structure of the organization, often referred to as the scalar chain, Drucker (1989) suggests that these should be as few as possible. Too many levels bring difficulties in the understanding of objectives and communicating both up and down the hierarchy. According to Quinn (1992), enterprises generally obtain strategic advantage by focusing on the smallest activity or cost units that can efficiently replicate cost-cutting efforts which lead to dramatically lower overhead costs and part of these savings can then be passed to the customer in terms of lower prices.

Thompson (1997), states that radical business process engineering implies that a firm completely rethinks how certain tasks are carried out and searches for new ways through which performance can be improved. It leads to breaking down functional and individual job boundaries as the processes do not have to coincide with the existing departmental structures. Grundy (1995), however, cautions that speeding activities up without detriment to quality and without the reacting costs demands more effective learning and feedback in the management process. Accelerating processes with continual and open learning avoid costly errors. Reichheld (1996) suggested that by searching for the root causes of customer departures, companies with the desire and capacity to learn can identify business practices that need fixing and sometimes can win the customer back and re-establish the relationship firmly.

2.2.2 Marketing Strategy

Kottler and Armstrong (1999) define marketing as a social and managerial process. It's the process by which individual and groups obtain what they need and want through creating and exchanging products and value with others. Basically it's about satisfying customer needs and wants. Kottler (2000) observes that marketing helps to define the business mission as well as analyzing the environment, competition and business situations. It therefore plays a major role in the organization's strategic planning process.

The other key factor that will influence progress in the industry is the marketing strategy. capital is in short supply and with over capacity in the services industry. organizations make the classic strategic decisions as to which market segments they wish to service and in what way, organizations had previously attempted to be "all things to all men" as they embarked on mass marketing campaigns; now increasing efforts are being expanded in determining which customer segment provide the most profit potential. The basic thrust of marketing strategies in the 1990s was to increase the penetration of products to their existing customers through more effective cost-cutting efforts. Gavigan (1992) articulated this strategy as; it is much easier and cheaper to sell to "warm bodies" and forming an existing account base is much better than hunting for new customers. This combines an expansion into new area of operation with low cost such as a convenient telephone delivery system.

According to Thompson and Strickland (1993) environmental scanning enables managers to identify potential developments that could have an important impact on industry conditions leading to the emergence of opportunities and threats. This will help the managers to develop appropriate strategies given the industry competitive situation. The strategic marketing mix elements of products, price, distribution and promotion are equally important.

2.2.3 Information Technology Strategy

Over the past two decades IT has allowed organizations to expand their activities to mass market. According to Porter (1985), technological change especially IT is amongst the most important forces that can alter the rules of competition. This is because most activities of an organization generate and utilize information. Porter and Millar (1985) contend that IT can also create new business from within a company's existing activities. Mc Farlan et al (1983) contribute that IT offers a scope for product differentiation that enables the company to effectively service the needs of its market niche. Luftman (1996) adds that the way a firm views its business, customers and competition is critical to successfully aligning its business and IT strategy. IT is used to automate process and to augment the skills of organization's staff.

Rayport and Sviokla (1985) stated that competition is defined a long two dimensions; the physical world of resources and a virtual world of information. Information supports and enhances every activity in the organization and it can itself be a source of added value and hence competitive advantage, provided Organizations are able to draw that value. Gilbert (1995) notes that strategically successful organizations obtain market feedback continuously and rapidly adapt to the feedback a head of their rivals. They exploit the potential of strategic as well as competitive and operating information systems; some of the information technology variables that can influence a firm's response to competition include the usage of real-time systems, extent of interconnectivity of distribution channels as well as the efficiency of the telecommunication systems.

Although capital is scarce, organizations continue to invest huge sums of money in IT as it acknowledged that lack of investment in this area damages organizations ability to compete effectively. organizations are making the transition to customer-based information being held or relational databases in their efforts to become more market-oriented and to resolve the difficulties of holding details of customers at accounts or clustered around the customers static details records such as name and age. The speed at which technology continues to develop makes predicting the future of systems difficult but IT solutions to business problems must provide information support place to the customer in the centre of their operations; aid in-time compressing in the development of organizations products and services and reduce overall costs by improving productivity throughout the organization.

2.2.4 Human Resource Strategies

The importance of human resource strategy is crucial as the performance and cost of those employed in the industry are fundamental to its future success. This is another area where organizations are attempting to raise quality and at the same time cutting costs. Human resource strategies must support the strategic direction of the organization. Human resource is essential in aligning other factors of production to achieve the goal of the firm.

Cost is a major differentiator in financial services and all major participation must pay attention to staff costs which is their major cost driver to remain competitive. Players in the industry will continue to match cash around the market place so other forms of differentiation are needed with service quality being increasingly important in achieving competitive advantage.

2.3.5 Organizational Strategy and Culture Change

Brown (1998) defines organization culture as the pattern of beliefs, values and learned views of coping with experience that have developed during the course of an organization history and which tend to be manifested in its material arrangements and in the behaviours of its members. thus an appropriate and cohesive culture can be a source of competitive advantage. This is because it promotes consistency, coordination, control and reduces uncertainty while enhancing motivation and organizational effectiveness, all of which facilitate the chances of being successful in the market place. Therefore, corporate cultural identity for the marketer is a strategic tool that is used to manipulate consumer perceptions of an organization and its products/services.

Culture change and corporate learning are interdependent. The rate of organizational learning is dependent on culture while the rate and content of organizational learning fundamentally influence the firms' culture. Thus culture change is a process of learning. Other indicators of culture shifts include changes in architectural design and branding logo and nature of internal communication as to a changing competitive enrichment. therefore entail substantial changes to an organization's long term behaviour. These adaptations may be gradual or revolutionary depending on the nature and circumstances facing the organization.

On the whole, a turbulent environment will dictate that organizations rapidly make both strategic and operational responses in order to remain competitive in their businesses. The Saccos are not any exceptional given the liberalization of the co-operative sector. The response patterns must be compatible with their internal capabilities to ensure successful implementation of the response strategies and the environment scanning is a continuous process (Abongo, 2007).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 *Research Design*

This was a survey of the responses adopted by Saccos in Nairobi area to the changes in the external environment. The design was selected due to high cost of other design alternatives and also considering that Nairobi area has the highest concentration of the Saccos.

Kothari (1990) describes a survey as involving a general or comprehensive view of a situation in order to ascertain a condition or value. This study focused on opinion or factual information and involved administering a questionnaire to individuals.

This was a descriptive research which determined and report the way things are (Gay, 1981). This approach was appropriate to the study since it involved fact finding and enquiries of different kinds to describe the state of affairs as they presently exist.

3.2 *Population of Study*

The population of interest in this study constitutes all the Saccos whose registered offices are in Nairobi area and maintained in the roll of cooperative societies by 31st December 2007 at the commissioner's office, Nairobi. There were 1,060 active Saccos in the commissioner's register.

3.3 *Sample Design*

Sampling means selecting part of the elements in a population so that conclusions may be obtained about the entire population (Kothari, 1990).

Gay (1981) suggests that for descriptive studies a sample of 10% of the accessible population is acceptable.

Since the population size was known, random sampling was used. From the roll of active Saccos in the commissioner's register as at December 2007, there were 1060 active Saccos out of which 60 Saccos were selected.

3.4 *Data Collection*

Both quantitative and qualitative data were collected. Primary data of either nature was collected through a structured questionnaire and complimented by Secondary data obtained through desk research.

The items in the instrument (questionnaire) of data collection have been developed from literature review. It was delivered to all the chairpersons of the selected Saccos. The questionnaire was self administered in that it involved the drop and pick later approach. This gave the respondents ample amount of time to think through the questions before answering them. The researcher was however, available to clarify arising questions.

The questionnaire had four parts with different sets of questions. The questions were both closed and of open ended type. The closed questions aimed at obtaining specific responses while the open ended section gave flexibility for the respondent to answer. The first part of the questionnaire sought to get general (individual and organizational) information on the specific Sacco. Part two; Challenges facing the Sacco subsector in Kenya, Part Three; Responses, part Four; Strategic fit. This division of the questionnaire into parts captured the first and the second objective. All the respondents were expected to answer all questions in all the parts. The respondent in each sampled Sacco was the chairperson or any other senior person in the Sacco hierarchy either from the governing authority or management.

3.5 *Data Analysis*

The process of data analysis involved several stages. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions (Kaewsmith & Herding, 1992).

The data collected was analysed along the variables of the study. This content analysis encompassed challenges, responses on restructuring, marketing strategy, information technology and strategic fit.

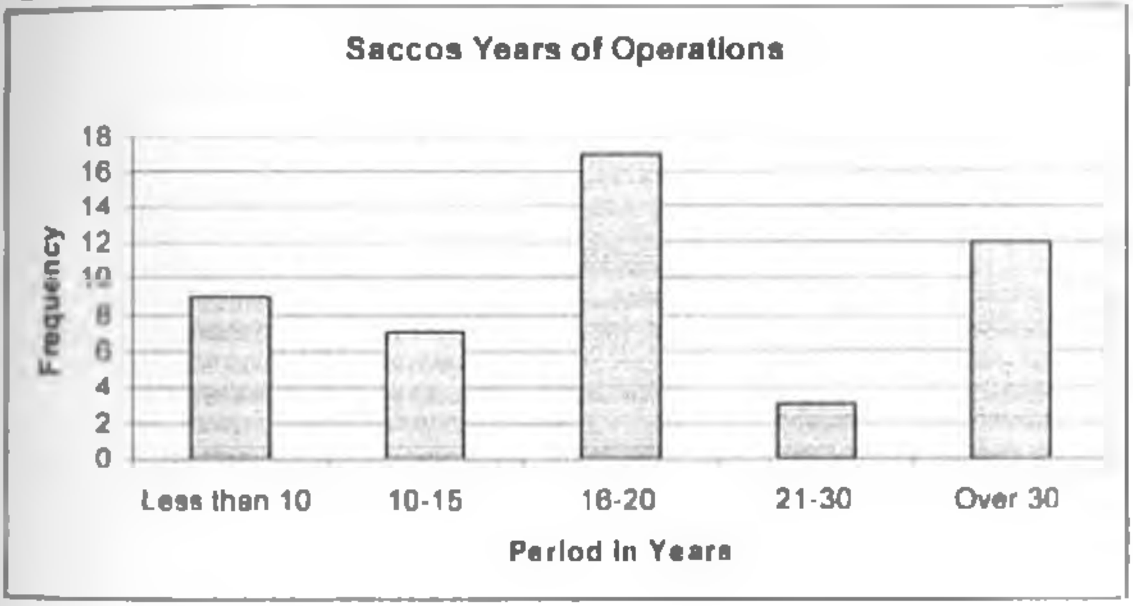
CHAPTER FOUR: FINDINGS AND DISCUSSIONS

This chapter presents analysis and findings of the research and the extent it achieved the objectives of the study. Out of the sampled 60 Saccos, there were 48 respondents thus the response rate was 80%

4.1. Number of Years in Operation.

This section sought to find out the number of years the Sacco has been in operation.

Figure 1: Number of years in operation

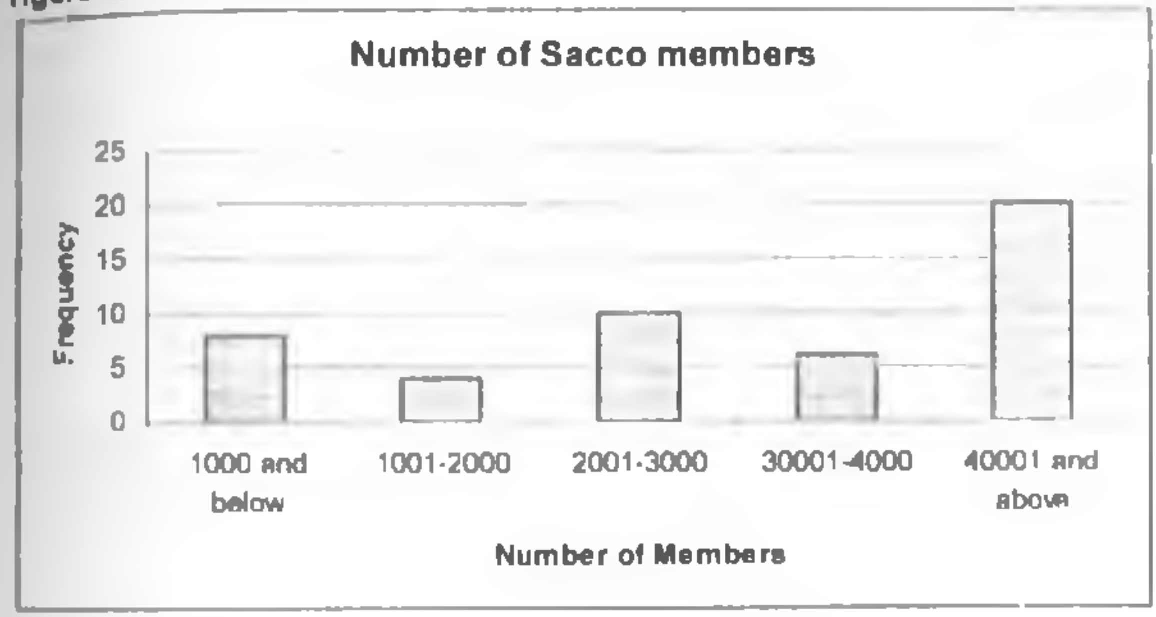


Source: Interviews

From figure 1 above, it can be seen that out of the 48 Saccos surveyed, 17 (or 36%) had been in operation for 16 years, 9 (or 18%) had been in operation for less than 10 years, 12 Saccos (or 25%) had been in operation for over 30 years, 3 (or7%) had been in operation for over 20 years and 7 (or 14%) had been in operation for more than 10 years, majority of the respondents were Saccos which had been in operation for over 16 years.

4.2. Membership of the Sacco

Figure 2: Total membership



Source: Interviews

Figure 2 shows that out of the 48 Saccos surveyed, 8 (or 17%) had membership of 1000 and below, 10 (or 21%) had membership above 2000, 6 (or 12%) had membership above 3000, and 20 (or 42%) had membership above 4000. The modal class was 4001 and above

4.3 Designation of the Respondents

Table 1: Designation

Designation	Frequency	Proportion
Chairpersons	22	45%
General manager	4	8%
Honorable secretary	7	15%
Treasurer	2	5%
Vice chairperson	13	27%
Total	48	100%

Source: Interviews

Table 1 shows that 22 of the respondents were chairpersons, 4 were general managers of the Saccos, 7 were honorable secretaries, 2 were treasurers and 13 vice chairperson. Majority of the respondents 45% were the chairpersons.

4.4. Gender of the Respondents

Table 2: Gender

Gender of the respondents	Frequency	Proportion
Male	40	83%
Female	8	27%
TOTAL	48	100%

Source: Interviews

Majority of the respondents were males comprising 83% while there were only 8 female respondents comprising 27%

4.5 Category of the Sacco

Table 3: Category of the respondent Saccos

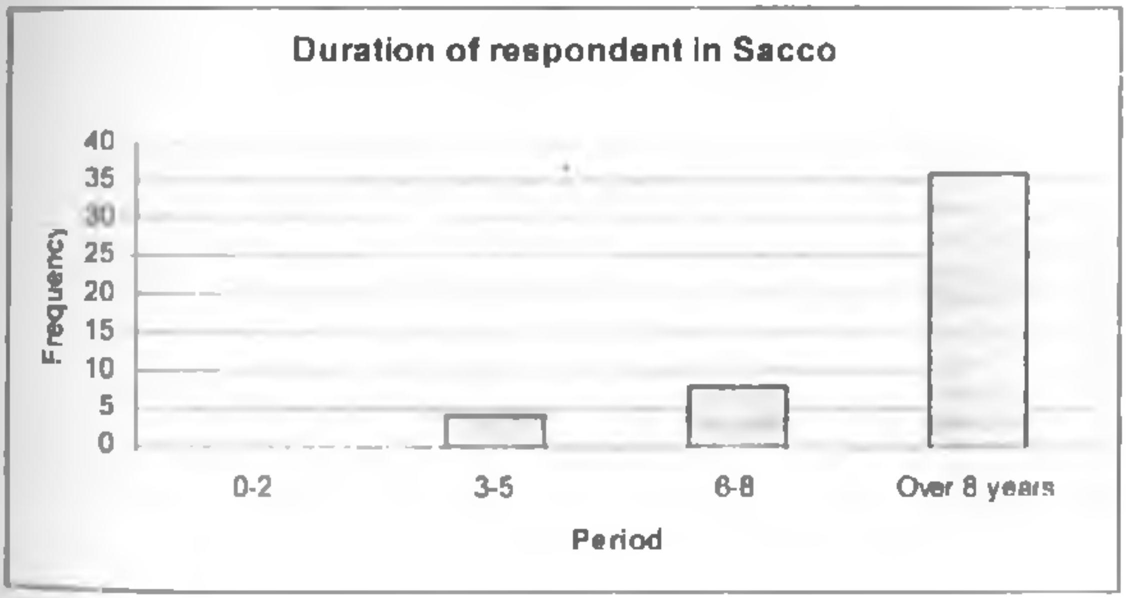
Category of the Saccos	Frequency	Proportion
Private sector Sacco	13	27%
Public sector Sacco	20	42%
Informal sector Sacco	15	31%
Total	48	100%

Source; Interviews

From table 3, it can be seen that majority of the respondents were from the public sector comprising 42%. Informal sector 31% and the private sector 27%.

4.6 Number of Years in the Sacco

Figure 3: Duration of the respondent in the Sacco



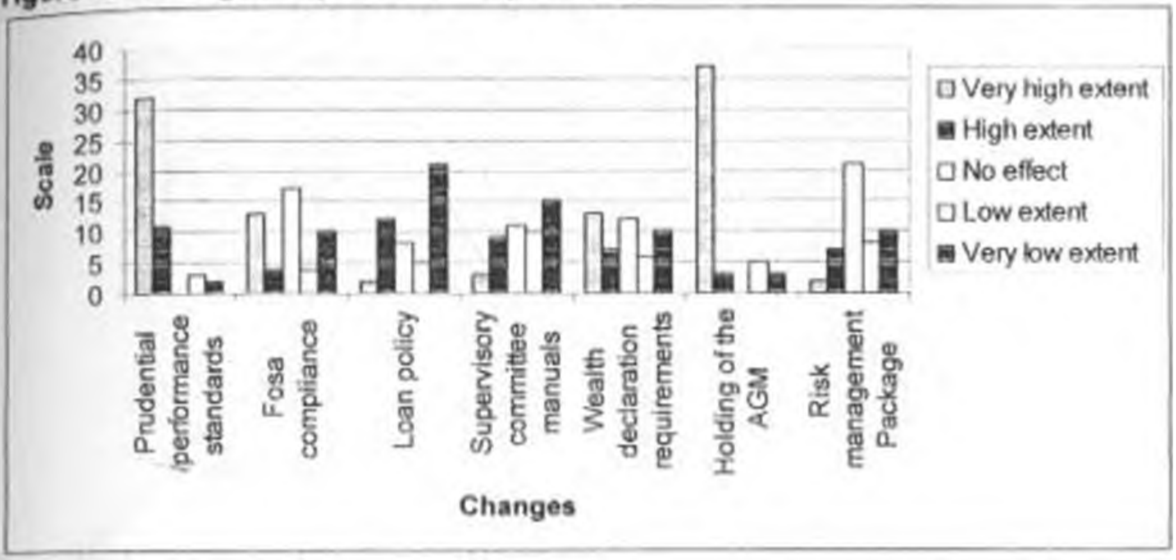
Source; Interviews

From figure 3, it can be seen that out of the 48 Saccos surveyed, majority of the respondents had been in the organization for over 8 years comprising

75% and none of the respondents had been in the organization for 2 years or less.

4.7 Changes Experienced By the Sacco Sub Sector In Kenya.

Figure 4 : Changes experienced by Saccos

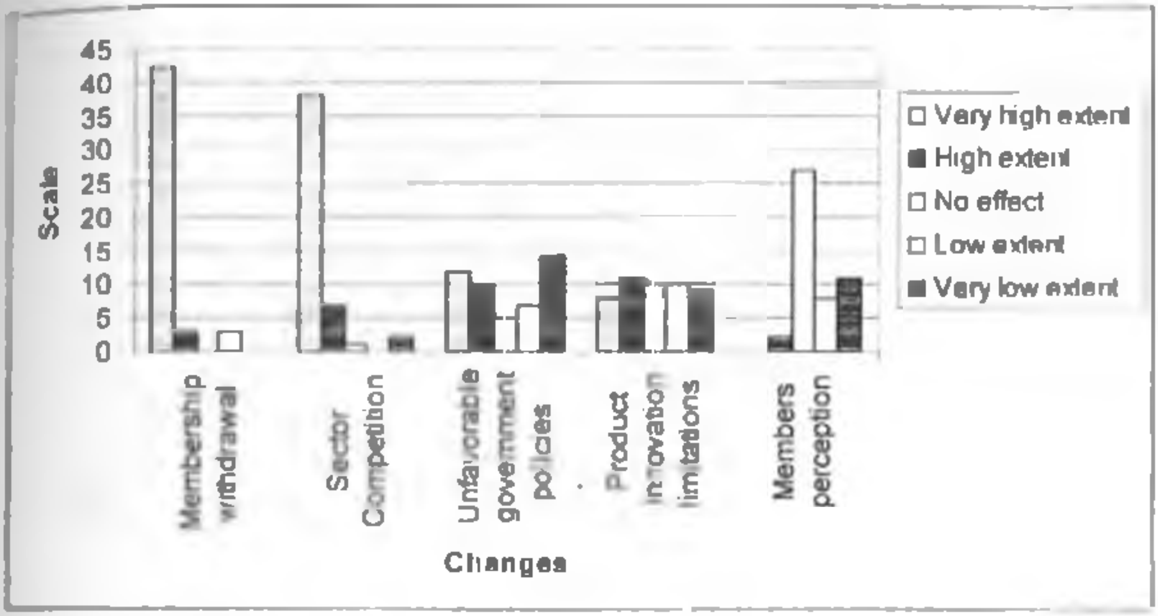


Source; Interviews

From figure 4, it can be seen that out of the 48 Saccos surveyed, majority have been affected by the changes in the Sacco subsector environment to a very high extent. Holding of the AGM (Annual General Meeting) in four months after the end of the financial year requirement can be singled out as one affecting majority of the Saccos followed by Introduction of performance/prudential standards

4.8. Challenges Facing the Sacco Subsector in Kenya

Figure 5: Challenges facing Saccos



Source: Interviews

From figure 5, it can be seen that the majority of the 48 Saccos surveyed are facing challenges to a very high extent.. Membership withdrawal is the main challenge followed by competition from the private sector as show on the figure above.

4.9. *Milestones Accrued to the Saccos For the Time They Have Been In Operation.*

Table 4: Sacco's developments for the period it has been in operation

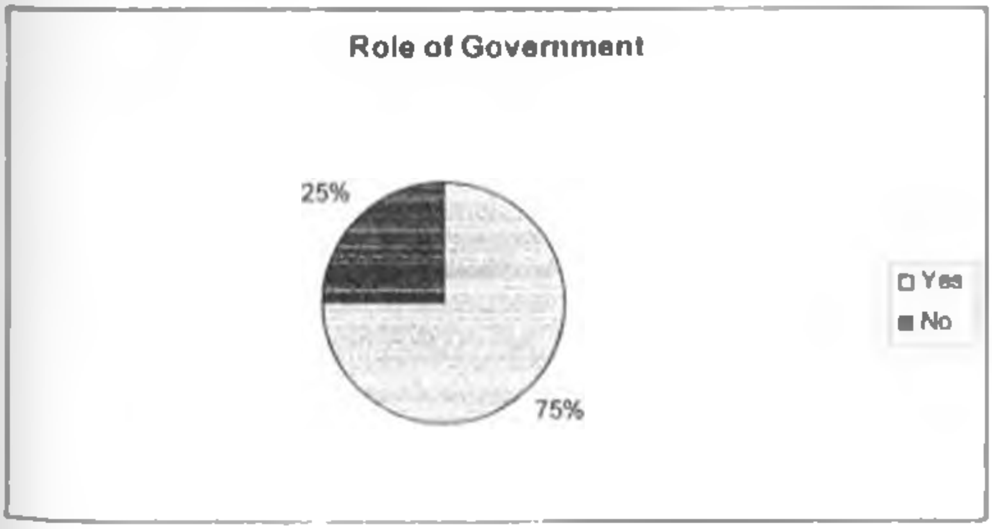
Saccos developments for the period it has been in operation	Frequency
Innovativeness and superior quality products and services	27
Responsiveness to the surrounding environment	10
High levels of competitiveness	9
Creation of superior values	2
Total	48

Source; Interviews

From table 4, it can be seen that majority of the Saccos, 27 have tried to be innovative in order to have superior quality products and services, responsiveness to the surrounding environment 10, maintaining high levels of competitiveness 9 while creation of superior values 2.

4.10 *The Government Consideration of the Sacco Subsector to Spur Economic and Social Development*

Figure 6: Government consideration of Sacco role in economic and social development



Source: Interviews

From figure 6 it can be seen that majority of the Saccos approve the Government has prioritized the Sacco subsector and attached it to economic and social development shown by 36 accepting while 12 saccos do not believe the Government has attached Sacco subsector to economic and social development.

Table 5: Reasons why Government attaches economic and social importance to the Sacco subsector

Reason	Frequency	Proportion
Economic development	1	2%
Empowering members economically	2	4%
Eradication of poverty	7	15%
Improving living standards	16	33%
Low income groups access credit	8	17%
Saving opportunities through mobilization of funds.	2	4%
No answer	12	25%
Total	48	100%

Source: Interviews

In this category, the interest of the researcher was finding out what were the reasons why the government attached so much importance on the Sacco subsector. Majority of the respondents indicated the reason is to improve the standard of living, 16 (or 33%) to enable low income Groups access credit 8, (or 17%) to eradicate poverty,7 (or 15%) to provide saving opportunities through mobilization of funds, 2(or 4%) which is shared by empowering members economically.

4.11 Functions of the commissioner for cooperative Development enjoyed by the Saccos.

Table 6 : Functions of the commissioner enjoyed by Saccos

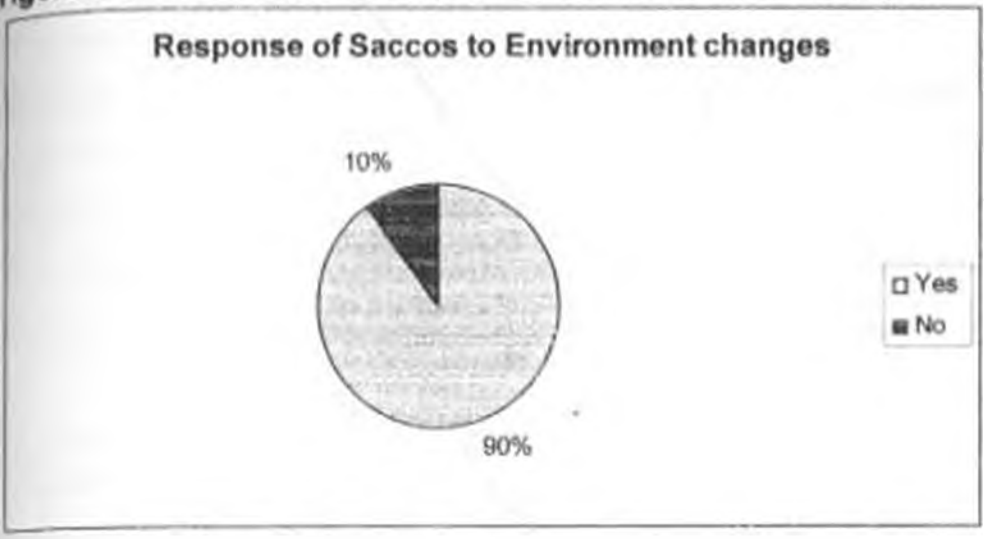
Function	Frequency	Proportion
Registration of new cooperative societies and audited reports.	4	8%
Education and training to the cooperative societies.	5	11%
Inspection, inquires and dispute arbitration	28	58%
Sacco policy formulation and provision of guidelines on Sacco development	8	17%
Coordination and regulation of specific Sacco activities e.g. fosa	3	6%
Total	48	100%

Source: Interviews

From table 6, it can be seen that majority of the Saccos surveyed enjoy inspection, inquires and dispute arbitration from the commissioner's office comprising 28 (or 58%), Sacco policy formulation and provision of guidelines on Sacco development 8(or 17%), Education and training to the cooperative societies 5(or 11%), registration of new cooperative societies and audited reports 4(or 8%) and coordination including regulation of specific Sacco activities e.g. Fosa 3(or 6%).

4.12 Number of Saccos that have responded to the environment changes

Figure 7: Saccos that have responded to environment changes

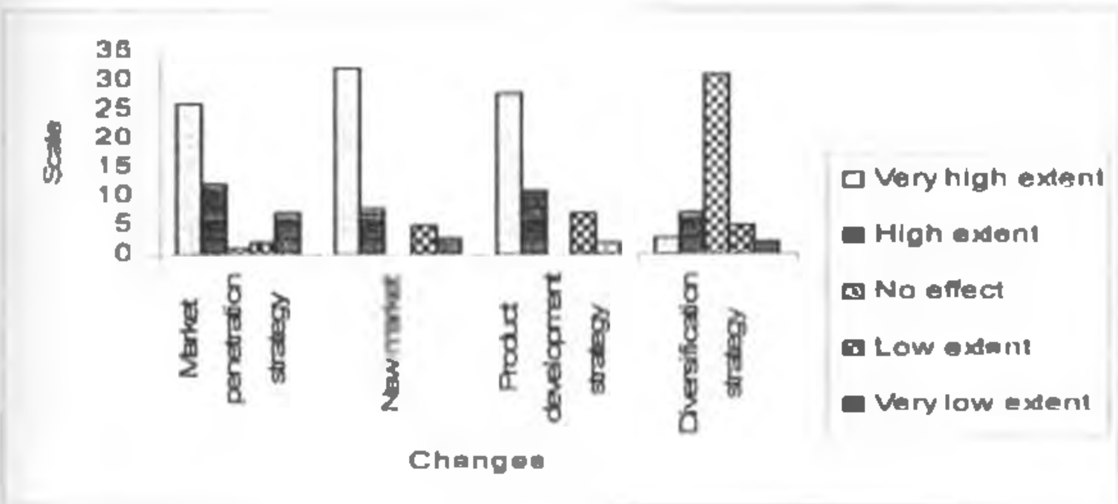


Source: Interviews

From figure 7, it can be seen that majority of the Saccos have responded to changes in the environment comprising 43 (or 90%). 5 (or 10%) have not responded to environment changes.

4.13 *Tactics used by Saccos to remain Competitive given the environment changes.*

Table 7: Tactics adopted by Saccos to remain competitive given the changes in the environment

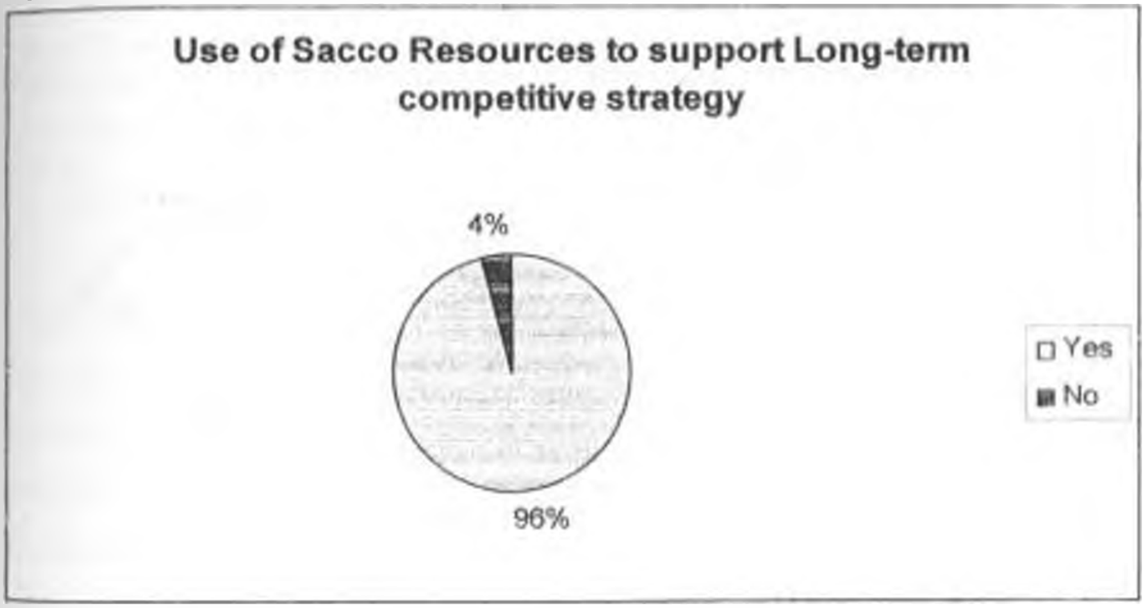


Source: Interviews

From table 7, it can be seen that majority of the Saccos surveyed have used several tactics to remain competitive given the environment changes to a very high extent shown by total frequency of 89. majority of the saccos have used new market strategy i.e. breaking the common bond to allow membership from other institution shown by 32, new product development strategy i.e. expanding the loan portfolio 28, market penetration strategy i.e. new product e.g. Fosa 26 and 3 have used diversification strategy i.e. real estate investment.

4.14. Saccos that have long term policies and plan to use their resources to support their long term competitive strategy.

Figure 8: Number of Saccos that have planned to use their resources to support their long term competitive strategy



Source: Interviews

From figure 8, it can be seen that majority of the Saccos surveyed have plans and long term policies to use their resources to support their long term competitive strategy comprising 46 (or 96%).

4.15 Role of the management committee to changing competitive environment

Table 8: Contribution of the management committee to the changing competitive environment

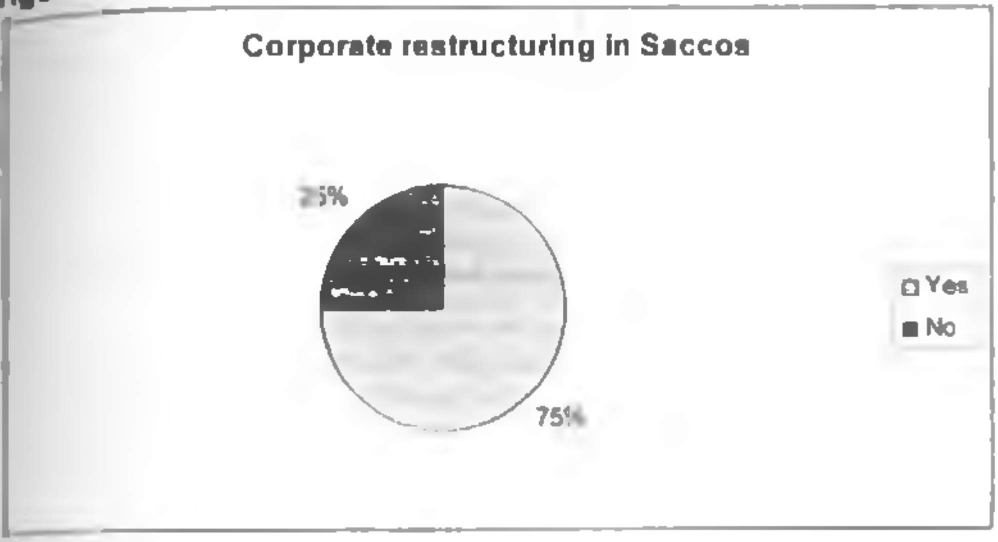
Role of the committee to the changing competitive environment	Frequency	Proportion
Constant consultations with members on the way forward	6	12%
Developing survival strategies for the general meeting approval.	23	48%
Liaising with the commissioner office for any up dates on the new products.	8	17%
Organizing constant education and training on how to use new products.	9	19%
Organizing tours to other Saccos so that members learn from them	2	4%
Total	48	100%

Source: Interviews

From table 8, it can be seen that majority of the Saccos surveyed indicated that the contribution of the management committee to the changing competitive environment is developing survival strategies for the general meetings approval comprising 23 (or 48%), organizing constant education and training for members on how to use the new products 9 (or 19%).

4.16 Corporate restructuring in the Saccos

Figure 9: Saccos that have undergone corporate restructuring



Source: Interviews

From figure 9, it be seen that majority of the Saccos have undergone corporate restructuring comprising 36 (or 75%) in the last 5 years, 12 (or 25%) have not undergone corporate restructuring.

4.16 Objectives of the restructuring processes

In this category, the interest of the researcher was finding out the reason for the restructuring process in Saccos

Table 9 : Reason for restructuring in Saccos

Reasons for restructuring in Saccos	Frequency	Proportion
To increase the products/services of the Saccos enjoyed by the members	8	17%
To make the Sacco do other business a part from the usual savings and credit e.g. Transport business, real estate investment	5	10%
To make the Sacco business relevant and competitive in a liberalized environment	17	36%
For economic development	2	4%
Because it was encouraged by the government through commissioners office	4	8%
No answers	12	25%
Total	48	100%

From table 9, it can be seen that majority of the Saccos surveyed undertook corporate restructuring to make their Saccos business relevant and competitive in a liberalized environment comprising 17 (or 36%), 8(or 17) did the same to increase the products/services of the Sacco enjoyed by the members. 5 (or 10%) undertook corporate restructuring to make their Saccos do other business apart from the usual savings and credit e.g. transport business, real estate investment.

4.17 The way the restructuring process was undertaken in Saccos

Table 10: Restructuring process

Restructuring process in Sacco	Frequency	Proportion
Management committee floated the idea to the general meetings for approval followed by presentation of budget provisions for the same in another general meeting and then implementation	8	17%
Experts from Kussco were contracted to develop a document for restructuring of the organization which was later adopted by members and is being implemented	6	12%
Ministry of cooperative Development circulars on restructuring were followed as well as constant guidance from the commissioners office	13	27%
External credit facility was sought by the Sacco which was later used to buy the Sacco its office, computers, employ qualified staff etc	9	19%
No answers	12	25%
Total	48	100%

Source; Interviews

From table 10, it can be seen that majority of the Saccos surveyed used guidelines from the commissioners office while undertaking the restructuring process comprising 13 (or 27%), 9 (or 19%) sought external credit facility to fund different stages of the process. 12 (25%) had not undertaken the restructuring process in their Saccos.

4.18 Challenges faced by the Saccos during restructuring

Table 11: Challenges facing Saccos in undertaking restructuring

Challenges facing Saccos in restructuring		
Inadequate capital	23	48%
Limited expertise on the side of the management committee	5	10%
Stringent requirements from the commissioners office	84%	17%
Lack of education and training on the side of the members to facilitate approval of budget estimates for the same	2	4%
No answers	10	21%
Total	48	100%

Source: Interviews

From table 11, it can be seen that majority of the Saccos surveyed had inadequate capital to facilitate the restructuring process comprising 23 (or 48%). 8(or17%) indicated stringent requirements from the commissioners office was an impediment and 5 (or 10%) had limited expertise on the side of the management committee.

4.19 Saccos that have met the objectives of restructuring

Table 12 : Saccos meeting the objectives of restructuring

Extent to which objectives of restructuring have been met by Saccos	Frequency	Proportion
Complete	7	15%
Continuing	20	42%
Half way	5	10%
Stuck after starting	4	8%
No answers	12	25%
Total	48	100%

Source; Interviews

From table 12, it can be seen that majority of the Saccos are still continuing with the restructuring process comprising 20 (or 42%). 7(or 15%) have completed the process. 5 (or 10%) are half way with the process and 4 (or 8%) are stuck after starting.

4.20 Status of restructuring exercise

Table 13: Status of Saccos restructuring process

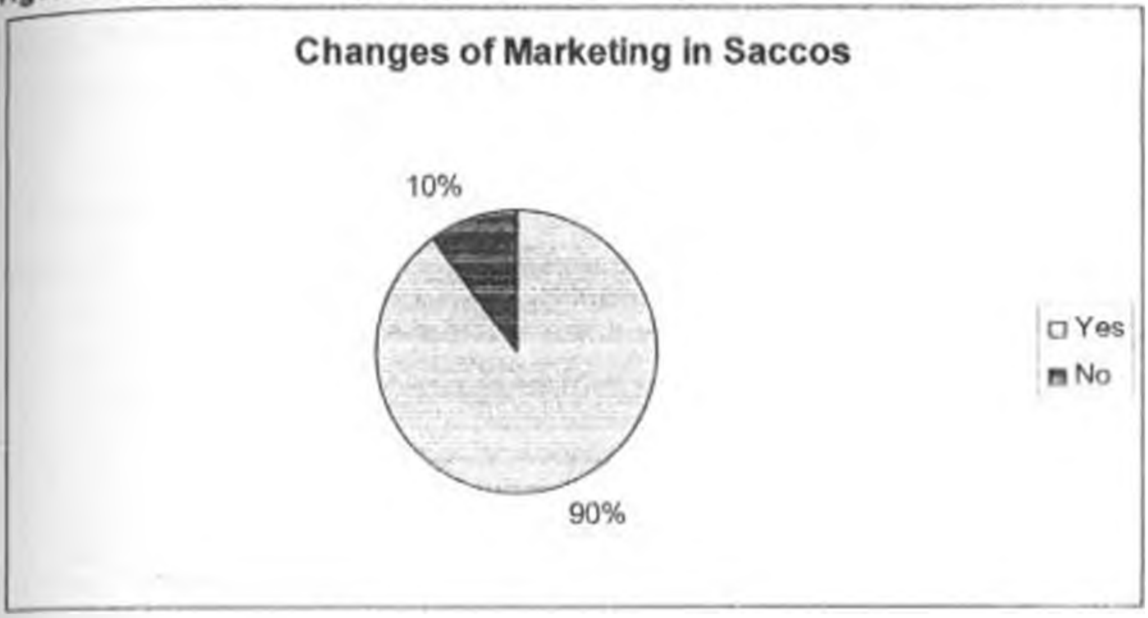
Status of restructuring	Frequency	Proportion
Complete	7	15%
Continuing	20	42%
Stuck after starting	4	8%
Half way	5	10%
Abandoned	0	0%
No answers	12	25%
Total	48	100%

Source; Interviews

From table 13, it can be seen that majority of the Saccos surveyed are still continuing comprising 20 (or 42%)

4.2 Marketing

Figure 10: changes in marketing strategy in Saccos for the last five years



Source; Interviews

From figure 10, it can be seen that majority of the Saccos surveyed indicated changes in their marketing strategy comprising 43(or 90%). 5 (or 10) had no changes in their marketing strategy.

4.2.1 Objectives of the Marketing Changes

Table 14: Objectives of marketing changes in Saccos

Objectives of marketing changes	Frequency	Proportion
To attract more members from other societies	4	8%
To retain our members so that they don't seek same services/products from commercial banks	9	19%
To popularize our Sacco in the Sacco fraternity	3	6%
To make our products/services be competitive	20	42%
To fulfill the requirements of the commissioners office	7	15%
No answer	5	10%
Total	48	100%

Source; Interviews

From table 14 it can be seen that majority of the Saccos undertook marketing changes in order to make their products/services be competitive comprising 20 (or 42%). 9 (or 19%) undertook marketing changes in order to retain their members from seeking same services/products from the commercial banks.

4.2.2 Implementation of the Marketing Changes

figure 11: Implementation of marketing changes

Implementation of marketing changes	Frequency	Proportion
Done in phases or stages	6	13%
Minimized the waiting period before the issuance of loans/services	12	25%
Introduced new products/services such as special loans, Holiday loans etc	19	40%
Sought external credit to enable us go to other business e.g. Fosa, real estate investment	4	8%
Improve the quality of our T-shirts during Shirika day celebration	2	4%
No answer	5	10%
Total	48	100%

Source: interviews

From table 12 it can be seen that majority of the Saccos surveyed effected marketing changes by introducing new products/services such as special loans, holiday loans etc comprising 19(or 40%). 12 (or 25%) effected marketing changes by minimizing the waiting period before the issuance of loans.

4.2.3 Challenges Faced By the Sacco While Undertaking the Marketing Changes

Table 15: challenges facing Saccos in undertaking marketing changes

Challenges facing the Saccos in undertaking marketing changes	Frequency	Proportion
Inadequate capital	34	71%
Retrenchment in the mother organization or membership withdrawal	8	17%
Un informed membership	1	2%
No answers	5	10%
Total	48	100%

Source: Interviews

From table 15 it can be seen that majority of the Saccos surveyed faced challenge of inadequate capital while undertaking marketing changes comprising 34 (or 71%), membership withdrawal due to retrenchment was also a big challenge comprising 8 (or 17).

4.2.4 The Extent to Which Marketing Changes Have Been Met By Saccos

Table 16: Extent to which marketing changes have been met

Extent to which marketing changes have been met	Frequency	Proportion
Complete	4	8%
Continuing or on-going	30	63%
Half way complete	6	13%
Abandoned	3	6%
No answer	5	10%
Total	48	100%

Source: Interviews

From table 16 it can be seen that majority of the Saccos surveyed are still continuing with their marketing changes comprising 30(or 63%), while 4 (or 8%) have completed the process. The marketing changes have been met to a very small extent since the majority is still continuing with only 4 (or 8%) complete.

4.2.5 Current Status of Marketing Reponses by Saccos to Their Changing Competitive Situation.

Table 17: Current status of marketing changes

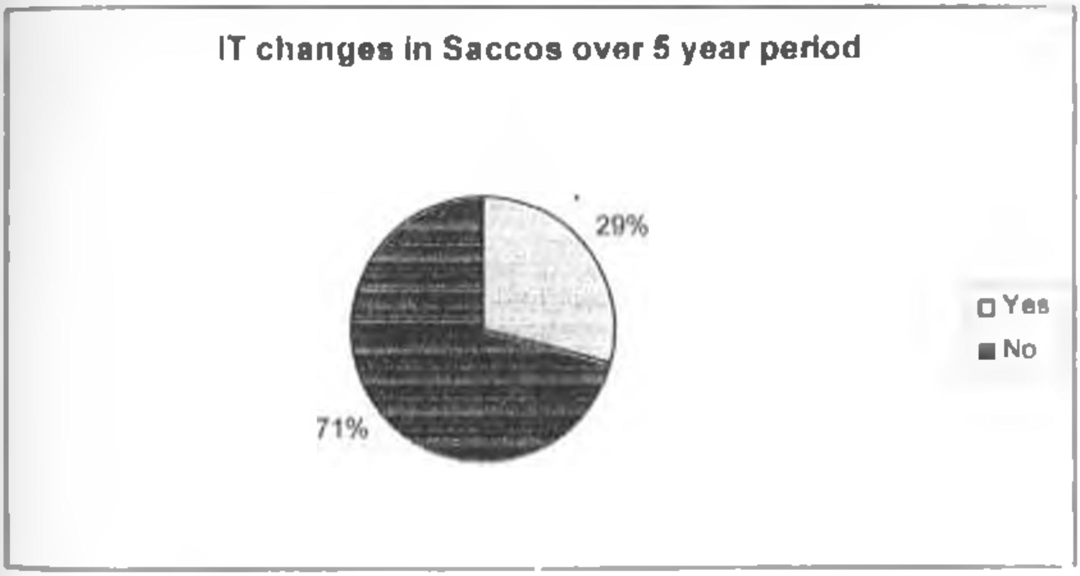
Current status of marketing changes	Frequency	proportion
Successful	4	9%
On-going	36	75%
Abandoned	3	6%
No answers	5	10%
Total	48	100%

Source; Interviews

From table 17 it can be seen that majority of the Saccos surveyed are still continuing with their marketing changes comprising 36(or 75%) with only 4 (or 9%) being successful in implementing marketing changes.

4.3 Information Technology (IT)

Figure 12: Changes in information technology in the last 5 years in Saccos



Source; Interviews

From figure 12, it can be seen that majority of the Saccos surveyed had not had any changes in information technology comprising 71%, only 29% of the Saccos had changes in their information technology.

4.3.1 Objectives of the Information Technology Changes.

Table 18: Objectives of information technology changes

Objectives of information technology changes	Frequency	4%
To improve the quality of our products/services	2	8%
To enhance service delivery to our members	4	13%
To attain competitive edge over other Saccos	6	4%
To connect our branches country wide	2	4%
No answers	34	71%
Total	48	100%

Source: Interviews

From table 22 it can be seen that majority of the Saccos surveyed had not had any changes in their information technology. 6 (or 13%) had information technology changes in order to attain competitive edge over other Saccos, while 4 (or 8%) had changes in information technology to enhance service delivery to their members.

4.3.2 The Way Changes In Information Technology Were Effected In Saccos.

Table 19: Implementation of changes in Information Technology

Implementation of changes in information technology	Frequency	proportion
In phases or stages	13	27%
At a go	1	2%
No answers	34	71%
Total	48	100%

Source: Interview

From the table 19 it can be seen that majority of the Saccos surveyed 13 (or 27%) adopted implementation of their information technology in phases or stages but majority 34 (or 71) had not had any changes in their information technology.

4.3.3 Challenges Faced By Saccos In Making Changes In Their Information Technology.

Table 20: Challenges facing Saccos in making changes in their information technology

Challenges facing Saccos in making changes in their information technology	Frequency	Proportion
Inadequate capital	9	19%
Inexperienced staff	5	10%
No answer	34	71%
Total	48	100%

Source; Interviews

From table 20, it can be seen that majority of the Saccos surveyed that had changes in their information technology faced inadequate capital as the major challenge. Inexperienced staff was another challenge comprising 5 (or 10%).

4.3.4 The Extent to Which the Objectives of Making Information Technology Changes Have Been Met

Table 21: Extent to which changes in information technology has been met in the Saccos

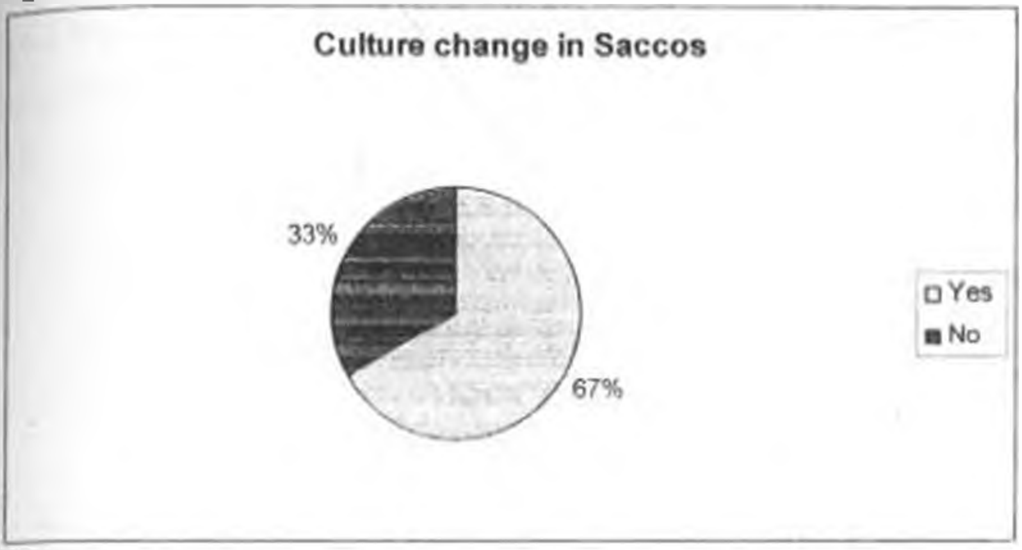
Extent to which changes in information technology has been met in the Saccos	Frequency	Proportion
Complete	6	12%
On going	7	15%
Stuck after starting	1	2%
No answer	34	71%
Total	48	100%

Source: Interviews

From table 21 it can be seen that majority 15% of the Saccos surveyed that had made changes in their information technology are still continuing with the process 6(or 12%) are complete. It can again be noted that the current status of information technology responses by Saccos are still on going

4.4 Culture Change In Saccos

Figure 13: Culture change in Saccos



Source; Interviews

From figure 13, it can be seen that majority of the Saccos surveyed had experienced business culture changes in their Saccos comprising 32(or 67%). 16 (or 33%) had not experienced any business culture change in their Saccos.

4.4.1 Objectives of Culture Change In Saccos

Table 22 Objectives of business culture changes in Saccos

Objectives of culture change in Saccos	Frequency	Proportion
To realign our Sacco business to the new vision and mission	28	59%
To add value to our products/services	4	8%
No answers	16	33%
Total	48	100%

Source; Interviews

From table 22, it can be seen that majority of the Saccos surveyed which had changes in their businesses indicated the objective was to realign their Sacco business to the new vision and mission of the organization Comprising 28 (or

59%). 4 (Or 8%) indicated the objectives was to add value to their products/services.

4.4.2 Implementation of Culture Change

Table 23: Implementation of Culture change in Saccos

Implementation of culture change in Saccos	Frequency	Proportion
Through change of mission and vision of the Sacco	22	50%
Through education and training to members	5	10%
Through introducing new products /services	3	7%
No Answer	16	33%
TOTAL	48	100%

Source; Interviews

From table 23 it can be seen that majority of the Saccos surveyed which had change in their business culture effected the changes through change of mission and vision of the Sacco comprising 24 (or 50%). 5 (or 10%) effected the culture change through education and training and 3 (or 7%) through introduction of new products/services.

4.4.3 Challenges Saccos Faced While Making Culture Change

Table 24: Challenges Saccos faced as they made culture change

Challenges during culture change	Frequency	Proportion
Limitation in training	14	29%
Inadequate capital	18	38%
No answers	16	33%
Total	48	100%

Source; Interviews

From table 24 it can be seen that majority of the Saccos which had change in their businesses faced the main challenge of inadequate capital comprising 18 (or 38%). 14 (or 29%) faced limitation in training

4.4.4 The Extent To Which the Objectives Of Culture Change Have Been Met.

Table 25: extent to which the objectives of culture change have been met

Extent to which objectives of culture change have been met	Frequency	Proportion
Not much has been achieved	22	46%
Hope it was successful	3	6%
No answers	23	48%
Total	48	100%

Source; interviews

From table 25 it can be seen that the objectives of culture change have not been met to a large extent comprising 22(or 46%). The status of the process of culture change can also be seen to be incomplete.

4.5 Other Responses Saccos Have Made As A Result of Changing Competitive Environment

Table 26: Other responses Saccos have made to the competitive environment

Other response made by Saccos to the changing competitive environment	Frequency	Proportion
None	15	31%
Opening or starting Fosa	21	44%
Joining the Sacco union-Kuscco	11	
No answers	1	2%
Total	48	100%

Source; interviews

From table 26 it can be seen that majority of the Saccos started Fosas as part of their responses to the competitive environment Comprising 21(or 44%). 15 (or 31%) had no other responses to the competitive environment.

4.5.1 Implementation of These Other Responses by Saccos

Table 27: Implementation of other responses

Implementation of other responses	Frequency	Proportion
Approval of the general meeting and then starting	2	4%
Approval of budget estimates for the new expenses then starting	6	13%
Approval of the commissioners office and then starting	39	81%
No answers	1	2%
Total	48	100%

Source; Interviews

From table 27 it can be seen that, majority of the Saccos which had other responses to the competitive environment particularly those which started Fosa sought the approval of the commissioner comprising 39 (or 81%). 6 (or 13%) sought approval of their budget estimates before implementing the new changes.

4.5.2 Challenges Facing Saccos in Implementing These Other Responses.

Table 28: Challenges Saccos face in Implementing other responses

Challenges facing Saccos in implementing other responses	Frequency	Proportion
Inadequate capital	36	74%
Inexperienced staff	11	23%
No answers	1	2%
Total	48	100%

Source; Interviews

From table 28 it can be seen that majority of the Saccos surveyed had inadequate capital to enable them implement other responses such as starting Fosa, real estate Investment comprising 36 (or 75%). 11 (or 23%) faced the challenge of inexperienced staff.

4.5.3 Extent to Which These Other Responses Have Been Met

Table 29: Extent to which implementation of other responses has been met

Extent to which other responses have been implemented in Saccos	Frequency	Proportion
Complete	3	6%
Continuing	21	44%
Abandoned	7	15%
No answers	17	35%
Total	48	100%

Source; Interviews

From table 29 it can be seen that majority of the Saccos surveyed are still continuing implementing other responses to the competitive environment comprising 21 (or 44%), 3(or 6%) are successful and 7 (or 15%) abandoned the projects after starting .It can again be seen from the same table that the current status of implementing other responses is still continuing.

4.5.4 Saccos That Consider Their Strategic Responses to Competitive Environment Adequate.

Figure 14: Saccos that consider their strategic responses to competitive environment adequate

Source; Interviews

From figure 9, it can be seen that majority of the Saccos surveyed consider their strategic responses to the competitive environment adequate comprising 27 (or 57%), 17 (or 35%) do not consider their responses adequate

4.5.5 Saccos That Posses the Necessary Capability to Adopt Aggressive Strategies To Match The External Environment.

Table 30: capability of Saccos to adopt aggressive strategies to match the external environment

Capability of Saccos to adopt aggressive strategies to match the external environment	Frequency	Proportion
Yes	30	62%
No	18	38%
Total	48	100%

Source; Interviews

It can be seen from table 30 that majority of the Saccos surveyed consider their Saccos to posses the necessary capability to adopt aggressive strategies to match the external environment.

4.5.6 Challenges facing Saccos as independent entities operating in Kenya in responding to their ever changing environment

Table 31: Challenges facing Saccos as independent initiatives operating in Kenya in responding to their ever changing environment

Challenges facing Saccos as independent entities operating in Kenya	Frequency	Proportion
Inadequate capital	21	44%
In experienced staff	9	19%
Stringent conditions set by the commissioner for cooperative development	11	23%
Inaccessible credit facility	6	12%
No answers	1	2%
Total	48	100%

Source: Interviews

From table 31 it can be seen that the major challenge facing Saccos in responding to ever changing environment as independent entities operating in Kenya is inadequate capital comprising 21(or 44%). 11(or 23%) faced stringent conditions set by the commissioner for co-operative development.

4.6 DISCUSSION

The study found out that majority of the Saccos surveyed had been affected by changes in the Saccos sub sector environment to a very high extent, perhaps this could be explained by the fact that Saccos had enjoyed unlimited protection from the government because of their welfare nature until the onset of liberalization of the economy when they were now expected to operate independently without enjoying any further government subsidy.

The study also found out that the main change that affected Saccos surveyed to a great extent is the requirements of holding the AGM four months after the end of the financial year and the introduction of the prudential /performance standards. The explanation for this could be because these were requirements set by the commissioner for cooperative Development during the onset of liberalization so the Saccos used to holding their AGM towards the end of the year were caught unawares. The financial year for most Saccos is 1st January to December 31st every year.

The study also revealed that challenges poised by competitive environment were faced by Saccos to a very high extent with the major challenge being membership withdrawal and competition from the international/private sector. The possible explanation for this could be the recession of the world economies that made many companies from which Saccos draw their membership to embark on massive retrenchment programmes in order to remain a float in their businesses.

The study also discovered that the milestone accrued to the majority of Saccos surveyed was being innovative and produce quality products and services followed by responsiveness to the surrounding environment and maintaining high levels of competitiveness .This could be because of the realization that they were now autonomous and were bound to collapse if they could not compete effectively with those institutions whose activities are analogous to their activities.

The study found out that the government of Kenya has prioritized and attached the Sacco subsector to economic and social development in order to improve the standard of living .The explanation for this could be because the government .believe in mobilization of resources through joint savings at the grassroot level to assist the vulnerable groups mainly women and children.

The study found out that among the functions of the commissioner for cooperative development enjoyed by Saccos surveyed most is inspections, holding of inquiries and dispute arbitration .The explanation for this could be because the Saccos believed the government is the only body with the required machinery to deal with the errant committee members mainly occupying powerful positions in the mother company.

The study found out that majority of the Saccos surveyed have responded to environment changes and have adopted several tactics to a high extent to remain competitive with the new market strategy i.e. breaking the common bond to allow membership from other institutions being the main strategy and product development strategy i.e. expanding the loan port folio as well as market penetration strategy i.e. new products e.g. Fosa .The explanation for this could be that membership withdrawal due to retrenchment programme in companies seriously affected the capital base of most societies and they were now looking for ways of rebuilding the same to facilitate regular issuance of loans after massive share refunds to the withdrawing members .Trying of new products e.g. Fosa must have followed the change of the Act to allow Saccos to do other businesses other than being limited to savings and credit.

The study found out that majority of the Saccos surveyed had long term policies and plans to use their resources to support their long term competitive strategy and that the contribution of the management committee to the changing competitive environment was to develop survival strategies and present the same to the general meeting for approval and organizing constant education and training to the members on how to use the new products .The explanation for this could be because of the amendments of the Act that took place in year 2004 which now recognize the management committee as the governing authority or board of directors for the Saccos whose primary duties from other companies are similar.

The study found out that majority of the Saccos surveyed had a common challenge in implementing corporate restructuring, marketing changes , information technology changes and culture change which is inadequate capital .The explanation for this could be that most Saccos have never practiced ploughing back capital whenever they make any interest in their business as every thing is usually paid out to the same members as dividends .Things have since changed with liberalization of the Sacco sub sector. There is a need for the Saccos to look beyond the internal operation s and develop strategies to strengthen their survival chances into the future.

issues like environment scanning must now be taken more seriously with a view to translating whatever information obtained from this research into long-term strategies for the organizations. The environment is becoming increasingly turbulent requiring proper diagnostic skills if the Sacco subsector is to survive in the free market economy.

Fosa must have followed the change of the Act to allow Saccos to do other businesses other than being limited to savings and credit

The study found out that majority of the Saccos surveyed had long term policies and plans to use their resources to support their long term competitive strategy and that the contribution of the management committee to the changing competitive environment was to develop survival strategies and present the same to the general meeting for approval and organizing constant education and training to the members on how to use the new products The explanation for this could be because of the amendments of the Act that took place in year 2004 which now recognize the management committee as the governing authority or board of directors for the Saccos whose primary duties from other companies are similar.

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Issues like environment scanning must now be taken more seriously with a view to translating whatever information obtained from this research into long-term strategies for the organizations. The environment is becoming increasingly turbulent requiring proper diagnostic skills if the Sacco subsector is to survive in the free market economy.

5.1.1 Saccos response to the competitive environment

The study discloses that majority of the Saccos surveyed have responded to environment changes and have adopted several tactics to a higher extent to competitive situation given the changes in the environment with new market strategy i.e. breaking the common bond to allow membership from other institutions being the main strategy used followed by product development strategy i.e. expanding the loan portfolio and market penetration strategy i.e. new products e.g. Fosa.

The study further reveals that majority of the Saccos surveyed have long term policies and plans to use their resources to support their long term competitive strategy. They further indicated that the role of the management committee to the changing competitive environment was to develop survival strategies and present the same to the general meeting for approval followed by organizing constant education and training for members on how to use new products.

The study reveals that many Saccos surveyed had undergone corporate restructuring comprising 75% in order to make the Sacco business relevant and competitive in a liberalized environment. The restructuring process followed the ministry of cooperative Development circulars in the same.

The study discovered that majority of the Saccos surveyed had changed their marketing strategies in order to retain their members from seeking the same services from the commercial banks. Implementation of the marketing strategies was through introducing new products /services such as special loans, holiday loans e.tc comprising 40%.

The saccos have amended their bylaws to include the vision and mission of the organization comparable to any other limited liability company. This represent a break from being government controlled institutions that receive continuous subsidy. Even though on a limited extent, the saccos have embraced the adoption of information technology on realization that they cannot withstand competition from the private sector and more importantly because current business trend worldwide demand the same.

The saccos have also diversified their businesses such that instead of being limited to the savings and credit, they have invested in several other areas e.g starting Fosas, investment in real estate, transport business etc. this is encouraging because it is consistent with the current business trend worldwide.

5.1.2. Challenges facing saccos in responding to environmental changes

Regarding the challenges facing the Sacco sub sector in Kenya in responding to environmental changes, the study found out that majority of the saccos surveyed had been affected by changes in the sacco subsector environment to a very high extent. holding of the AGM in four months after the end of the financial year requirement tops the list followed by introduction of prudential / performance standards.

The study again revealed that challenges poised by the competitive environment were felt by saccos to a very high extent with the major challenge being membership withdrawal followed by competition from international /private sector.

The saccos have not been ploughing back capital for investment purposes whenever they make any surpluses in their businesses as everything is usually paid out to the same members as dividends. The saccos therefore suffer from inadequate capital to facilitate adoption of information technology, restructuring and investment in non-core areas as permitted by law. There is also the stringent government rules or requirements for other investments that tend to slow the expansion or diversification rate of saccos.

The findings of the study further indicate that the saccos suffer from inaccessibility to external credit facilities as most commercial banks would wish to lend them credit at higher interest rates compared to their internal interest rates. This usually translates into loses to them when they go for such external credit facilities Even though the saccos are meant to be autonomous by law, the welfare nature of the institutions remains, this makes it hard for the members to de-link the institution completely from the government. The net effect of this is the slow pace of change of the business culture associated with the private sector worldwide.

5.1.3 Other findings

It should be noted from the study that the milestones accrued to the saccos surveyed for the time they have been in operation is being innovative and produce superior quality products and services followed by high levels of responsiveness to competition.

The study reveals that the government of Kenya has prioritized and attached the Sacco subsector to economic and social development as attested to by the majority of the saccos surveyed. Majority of the saccos surveyed also indicated that the reason the government has attached the Sacco sub sector to economic and social developments is to improve the living standards of the people.

It should again be noted from the study that among the functions of the commissioner for cooperative Development offered to Saccos, the most enjoyed function is inspections, holding of inquiries whenever societies have problems and disputes arbitration followed by Sacco policy formulation and provision of guidelines on Sacco development.

The study discovered that majority of the saccos surveyed had not made any changes in their information technology comprising 71% with only 29% having changed their information technology. The objective of changing their information technology was to attain competitive edge over other Saccos comprising 13%. The changes in the information technology were effected in stages or phases comprising 27%.

The study notes that the objectives of information technology changes have not been met to a large extent as majority of the saccos surveyed are still continuing with the process comprising 15% with only 12% having completed the process. The current status of information technology responses is on going.

The study further discovered that majority of Saccos surveyed had experienced business culture change. The objective of culture change was to realign their Saccos business to the new vision and mission comprising 50%. The study further indicates that not much has been achieved concerning the objectives of culture change comprising 46%.

The study revealed that Saccos are still continuing implementing these other responses comprising 44% with only 6% complete. The study also discovered that 57% of the Saccos surveyed consider their strategic responses to competitive environment adequate with 62% of the Saccos surveyed indicating they have the capability to adopt the necessary aggressive strategies to match the external environment.

5.2 Recommendations

Given the importance attached to the Sacco subsector as one of he most important engines of growth of the Kenyan economy very precise policies must be adopted to push this sector forward. In so dong, the much needed capital will be accumulated for investment. However, low levels of information technology change do not argue well for this sector. There is need to raise the level of information technology change to support professionalism in the sector. This translated into poor service delivery and lack of foresight in management.

This study has revealed that Saccos are still pre- occupied with operational issuance of loans at the expense of strategic matters. More often than not, organizations with this kind of orientation are caught unawares by changes which are fast pacing towards them. Sacco societies should take environmental scanning very seriously in order to strengthen their strategic posture. This calls for setting and revising short term objectives whenever new information is available, they however, must no loose focus on the overall strategy of the organization.

Introduction of new and diversified products is what makes a Sacco the first choice organization for members. Besides savings and credit, new products such as Fosa, real estate investment should be introduced to give members an opportunity to enjoy what they would not ordinarily afford from the formal financial systems.

The Sacco subsector has been filling a gap that the formal financial system has scorned due to perceived uncredit worthiness which happen to be the majority among employees the Sacco sub sector targets. We conclude that the development of Sacco societies is closely intertwined with the overall economic development of the country and no effort should therefore be spared to ensure that the effects of liberalization of the sector are turned into opportunities for growth and development of this very vital subsector.

5.3 Limitations of the Study

The study was restricted to Nairobi province mainly because of resources and time constraints. Nairobi province being the capital city of Kenya benefits immensely from higher levels of Sacco concentrations and average share capital and membership. These factors are likely to be different in other provinces in Kenya; hence the conclusions might not necessarily be a applicable to rural Sacco societies.

Another limitation of the study is that the sample that was considered for this study was a general sample i.e. it did not stratify the Saccos in different sectors. Hence the results are also general i.e. no due consideration has been made of the unique features of the Sacco societies found in different sectors of the society i.e. public sector, informal sector, private sector etc.

The data used for the study was mainly for the year 2007. In a few of the cases even the summaries for the year 2007 had not been concluded and in such cases we had to rely on the figures for 2006 combined with some estimation. In a highly dynamic environment, the business value of such information is likely to have deteriorated immensely and to use it for decision making might lead to some errors. It's also possible that new measures had been adopted in the year 2008 to cope with effects of liberalization. Such measures, if any, were not illuminated in the data for end of 2007.

No complex econometric or business statistical models were attempted in this study. This simplistic approach, although gives results that are simple to interpret, ignores detailed cross analysis. It does not bring out clearly the various compensation of measures that, if adopted would bring out optimal results.

5.4 Suggestions for Future Research

The current research focused mainly on Nairobi area. The reason being that it was most convenient for the researcher and despite the fact that Nairobi has high concentration of Saccos in the country, a researcher needs to be focused on other areas to ensure that comprehensive findings are found that would aid policy makers in decision making

Specific studies should be conducted to come up with sector –specific recommendations on responses of Saccos in public, private, parastatal and NGOS sectors. Similar studies should be conducted to improve on this work as time passes by since the business environment is very dynamic. Besides one hopes to access more current and relevant data on this important area

Lastly, more sophisticated statistical and ecometric tools should be utilized to find out the minute details that might have escaped in this study due to the simple nature of the statistical method adopted for analysis.

5.5 Conclusions

The importance of the Sacco subsector as a formidable institutional framework for resource mobilization and capital formation in Kenya cannot be gainsaid. This paper therefore makes both broad and specific conclusions.

To enhance the ability of the Sacco subsector to effectively respond to the effects of the liberalization of the cooperative sector, the Saccos must take it upon themselves to constantly scan the environment to decipher political, social, economic and global business trends that impact on the way they conduct their operations. This should help to realign their internal activities to be in tandem with strategic intension. Short term objectives should be set and reviewed whenever necessary to ensure that the organization does not lose sight of the overall corporate strategy.

Sacco societies should operate as open systems constantly encouraging creativity and innovation. This entails development of new products to take care of the changing needs, taste and preference of their members. It is gratifying to note that only 44% of the Saccos surveyed have adopted Fosa. There is still need to explore other possible new products besides Fosa.

To ensure efficiency in the Sacco subsector in the long run, the Saccos should set up a regulatory body so that the government may eventually cede most of its powers such as inspection, holding of inquiries and disputes arbitration to the new body.

To enhance the capability of Saccos to do other investments such as real estate, the Saccos must be encouraged to change their dividend policy such that instead of paying all the surplus realized as dividends as has been the case, they should embrace capital ploughing back policy to enable them build capital for other investments from their internal operations instead of relying on external credit facilities for the same.

Business trend world wide today require heavy investments in information technology to attain superior quality products and services, it`s discouraging to note from the survey that 71% of the Saccos surveyed had not changed their information technology due to inadequate capital. some have not even computerized their systems. Saccos must take it upon themselves that without adequate investment in information technology, they will not be able to withstand competition in such a turbulent environment. The purpose of competitive strategy is to establish a profitable and sustainable position against the forces that determine industry competition.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Dear Respondent

I am a student pursuing a postgraduate degree at the School of Business, University of Nairobi, currently in research year. The title of my study is "Responses of Saccos based in Nairobi to changes in the external environment".

You have been selected to participate in this study as a categorical respondent in the SACCO sub sector because of your role in the strategic management activities.

The questionnaire attached asks questions about your organizations strategic management practices, responses and organizational commitment to the changing SACCO sub sector environment. Your participation is essential to this study and will enhance our knowledge of strategic management practices in relation to the responses to the ever-changing environment. I also wish to inform you that the information you provide will only be used for academic purposes and will be treated with strict confidentiality. If you would like, we can send to you the report of the findings on request My address is provided below.

Thank you very much.

Opondo Dickens Amisi
Ministry of Co-operative Development & Marketing
P O Box 40811-00100
NAIROBI
Tel. 0721-963446

APPENDIX 2: QUESTIONNAIRE

SECTION A: RESPONDENT'S PROFILE

1 Name of the Sacco ....

Number of years in operation ....

1 Membership of the Sacco ....

2 Designation...

3 Gender: Male ☐ Female ☐

4 Category of the Sacco

(a) Private sector Sacco ☐

(b) Public sector Sacco ☐

(c) Informal sector Sacco ☐

5 How long have you been in the Sacco

0-2 years ☐

3-5 years ☐

6-8 years ☐

Over 8 years ☐

SECTION B: CHALLENGES FACING THE SACCO SUB SECTOR IN KENYA

1. Given some of the changes that have taken place, within the last 5 years, in the Sacco sub sector environment, to what extent have they affected your Sacco? (Please tick)

Changes	Very high extent	High extent	No effects	Low extent	Very low extent
Introduction of prudential/performance standards					
FOSA compliance standards or requirements					
Operating within loan policy document requirement					
Implementation of the supervisory committee manuals					
Signing of the wealth declaration requirements					
Holding of the AGM in four months after the end of the financial year requirements					
Securing appropriate risk management package for the society assets, deposits and management committee requirements					

Others (specify) ....

....

2. To what extent has your Sacco experienced the following challenges? (Please tick)

Challenges	Very high extent	High extent	No effect	Low extent	Very low extent
Membership withdrawal					
Competition from international/private sector					
Unfavorable Government policies					
Limitation in product innovation capacity					
Members perception of the Sacco as a non going concern					

Others (specify) ____

____

____

3. What are some of the milestones accrued to your Sacco for the time it has been in operation? (Please tick)

(a) Innovativeness and superior quality products and services ☐

(b) Responsiveness to the surrounding environment ☐

(c) High levels of competitiveness ☐

(d) Creation of superior values ☐

Others (specify) ____

____

____

4(i) Do you think the government of Kenya has prioritized and attached the Sacco sub sector to economic and social development? (Please tick)

Yes ☐ No ☐

(ii) If yes, why do you think the government of Kenya has prioritized and attached the Sacco sub sector to economic and social development? Please comment.---------------

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4. With reference to the functions of the Commissioner for Co operative Development under the provisions of the Co-operative Societies Act (No. 12 of 1997), please give three major functions that your Sacco has enjoyed.

Function	Tick
Registration of new Co-operative Societies and audited reports	
Education and Training to the Co-operative Societies	
Inspection, inquiries and dispute arbitration	
Sacco policy formulation and provision of guidelines on Sacco development	
Coordination and regulation of specific Sacco activities e.g. FOSA	

Others (please specify) --

SECTION C: RESPONSES

1. Has your Sacco responded to the above environment changes? (Please tick)

Yes ☐ No ☐

2. Given the above changes in the Sacco sub sector environment in Kenya, to what extent has your Sacco used the following tactics to remain competitive? (Please tick)

Strategy	Very high extent	High extent	No effect	Low extent	Very low extent
Market penetration strategy i.e. new product e.g. FOSA.					
New market i.e. breaking the common bond to allow membership from other institutions					
Product development strategy i.e. expanding the loan portfolio					
Diversification strategy e.g. Real Estate Investment					

Others (please specify)

....

....

....

3 (i) Do you have long term policies and plan for using the resources of your Sacco to support its long term competitive strategy? (Please tick)

Yes ☐ No ☐

(ii) What is the major contribution of the management committee to the changing competitive environment?

....

....

....

4 (a) Restructuring

(i) Has there been corporate restructuring at your Sacco in the last 5years? (Please tick)

Yes ☐ No ☐

(ii) What were the objectives of the restructuring process?

....
....
....

(iii) How was the process of restructuring undertaken?

....
....
....
....
....

(iv) Please indicate the challenges that were faced by your Sacco during the restructuring

....
....
....
....

(v) To what extent have the objectives for the restructuring at your Sacco been met?

....
....
....

(vi) What is the current status of the restructuring exercise?

....
....
....

(b) Marketing

(i) Has there been changes in Marketing at your Sacco in the last five years? (Please tick)

Yes ☐ No ☐

(ii) What were the objectives of the Marketing changes?

(iii) How were these changes effected?

(iv) Please indicate the challenges faced by your Sacco while making these marketing changes

(v) To what extent have objectives of these marketing changes been met?

(vi) What is the current status of the marketing responses by your Sacco to its changing competitive situation?

(c) Information Technology (IT)

(i) Has there been changes in Information Technology at your Sacco in the last 5 years?
(Please tick)

Yes ☐ No ☐

(ii) What were the objectives of the IT changes?

(iii) How were these changes effected?

....
....
....

(iv) Please indicate the challenges faced by your Sacco while making these changes

....
....
....

(v) To what extent have the objectives of these IT changes been met?

....
....
....

(vi) What is the current status of the IT responses by your Sacco to its changing competitive situation?

....
....
....

(d) Culture Change

(i) Has there been changes in the business culture of your Sacco? (Please tick)

Yes ☐ No ☐

(ii) What were the objectives of these changes?

....
....
....

(iii) How were these changes effected?

....
....
....

(iv) Please indicate the challenges faced by your Sacco while making these changes

....
....
....

(v) To what extent have the objectives of the culture changes been met?

....
....
....

(vi) What is the current status of the process of the culture change at your Sacco?

....
....
....

(e) Other Responses

(i) Please state any other responses that your Sacco has made as a result of the changing competitive situation facing your Sacco

....
....
....

(ii) How have these responses been effected?

....
....
....

(iii) Please indicate the challenges faced by your Sacco while developing and/or implementing such responses.

....
....
....

(iv) To what extent have the objectives of these responses been met?

....
....
....

(v) What is the current status of these responses by your Sacco to its changing competitive situation?

....
....
....

SECTION D: STRATEGIC FIT

In business planning, the strategic fit is an indication of how well a company's mission and strategies fit its internal capabilities and its external environment. The strategic fit is more to do with matching resources and activities of the company to the environment. Identifying opportunities that exist and positioning the organization to exploit them.

(i) Do you consider your Sacco's strategic responses to competition adequate?
(Please tick)

Yes ☐ No ☐

(ii) In your assessment, does your Sacco currently possess the necessary capability to adopt aggressive strategies to match the external environment?

....
....
....

(iii) Generally, what are some of the challenges facing your Sacco as an independent entity operating in Kenya in responding to its ever changing environment?

....
....
....