

**STRATEGIC RESPONSES TO THE CHANGES IN THE BUSINESS  
ENVIRONMENT BY UNAITAS SACCO SOCIETY LTD, KENYA**

**BY**

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## DECLARATION

I declare that this research project is my original work and has never been submitted to any institution or examination body for the award of degree, diploma or certificate.

**Signed** \_\_\_\_\_

**Date** \_\_\_\_\_

Maina Peter Kaburi D61/72830/2009

This project is submitted for examination with my approval as the University supervisor.

**Signed** \_\_\_\_\_

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## **DEDICATION**

This research project has been dedicated first to the Almighty God, whose blessings have sustained me from the start to the end. I also dedicate it to my dear wife Evelyn, son Sandy, daughter Bridget, father Jeremiah, Jeremiah's family and friends for their inspiration, encouragement, understanding and support throughout the Master of Business Administration (MBA) programme.

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May the Almighty God bless you abundantly

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## **ACRONYMS AND ABBREVIATIONS**

<b>ATMs:</b>	Automated Teller Machines
<b>CEO:</b>	Chief Executive Officer
<b>GDP:</b>	Gross Domestic Product
<b>GOK:</b>	Government of Kenya
<b>HIV:</b>	Human Immuno Virus
<b>KTDA:</b>	Kenya Tea Development Authority
<b>PESTEL:</b>	Political, Economical, Social, Technological, Environmental, and Legal
<b>SACCO:</b>	Savings and Credit Cooperative
<b>SASRA:</b>	SACCO Societies Regulatory Authority

## **ABSTRACT**

Organizations are open systems. They operate and survive within an external environment comprising competitors, the economy, suppliers, customers, technological requirements, government and communities. Business environmental conditions currently facing firms are dynamic. This demands more timely and effective competitive actions and responses. Strategic responses position the firm thus giving it a competitive advantage over its competitors. This study was conducted to establish the response strategies adopted by Unaitas SACCO in responding to changes in the business environment. Primary and secondary data were gathered for the study. The study adopted a content analysis method to analyze the data collected. According to the study findings, Unaitas was affected by new technologies, high expectations from their clients, increased Government of Kenya supervision, weather fluctuations and increased competition. Unaitas responded by designing strategies to remain relevant, have a competitive edge and increase its market share. Some of the strategies that the Sacco devised are; marketing and advertisements, diversification, rebranding and partnership. Other strategies are; differentiation, cost leadership and diversification. The study recommended Unaitas to invest more in the latest technology and start agency banking as a strategy of expanding its market share and product differentiation. Due to limitations of the study, suggestions for further research have been recommended.





## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Case study**

The Business Environment of the firm consists of all external influences that impact a firm's decisions and performances (Grant, 2000). It can be described as the world around an organization. It refers to forces or factors external to an organization that affects the organization's operations. Johnson, Scholes and Whittington (2008), argues that the environment is what gives organizations their means of survival. The flow of inputs and outputs of an organization is governed by the nature of components of its external environment such as the state of technology, government, competitors, substitute products and customers.

Organizations do not exist in a vacuum. They operate as open systems that interact with their environment for inputs and outputs. Bateman and Zeithaml, (1993), argued that, organizations operate and survive within an external environment comprising competitors, the economy, suppliers, customers, technological requirements, government and communities. Business Environment is dynamic. Contingency theory claims that there is no best way to organize a company or make decisions. Thompson (1994), points out that, the organizations must be flexible enough to adapt and change as necessary in the face of external changes. Therefore managers and organizations must adapt and respond to their situations. According to Ansoff and McDonnell (1990), increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to cope up with proper strategic responses. They argue that, the bulk of managerial time in business firms is devoted to coping with uncertainties induced by

the environment. These uncertainties are the competitor moves, economic fluctuations, availability of raw materials, constant changes in customer demands, technological changes and government legislations.

The firm exists in its industry, which is composed of the firm and the organizations that compete directly with it (Bateman & Zeithaml, 1993). Forces outside the industry are significant and usually affect all firms in the industry, the key is found in the differing abilities of the firm to deal with them (Porter, 1980). Ansoff and McDonnell (1990), says that the changes that emanate from the environment pose threats or opportunities to the firm such as; obsolescence of firm's technology, loss of market share, increase in cost of doing business, a chance to get major jump on competitors or ground floor entry into a new industry. He adds that, the speed with which such threats or opportunities develop has been increasing and it may no longer be possible to perceive and respond to them fast enough, before threat has made a major impact on the firm or the opportunity has been missed.

### **1.1.1 The Concept of Strategic Response**

A firm's external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation (Pearce, Robinson & Mital, 2008). The external environment plays a significant role in growth and profitability of organizations. However according to Hitt, Ireland and Hoskisson (1997), most firms face external environments that are growing more turbulent, complex and global, which makes them increasingly difficult to interpret. They further argue that, the environmental

conditions currently facing firms are different from those of the past decades because of the rapid sociological changes, technological changes, diverse consumers, governmental policies and laws, explosion in information gathering and processing capabilities which demand more timely and effective competitive actions and responses.

The managers of organizations need to be aware of and understand the implications of the environmental forces for them to improve the organization's competitive position, increase operational efficiency and win battles. According to Hitt, Ireland and Hoskisson (1997), firms attempt to understand their external environment by gaining information about their competitors, customers and other stakeholders. They gain this information to build their own base of knowledge and capabilities. These firms may imitate competitors or build new knowledge and capabilities to develop a competitive edge. The firms must constantly analyze their external environment to get information needed to understand present and predict the future.

The essence of formulating competitive strategy is relating a company to its environment (Porter 1980). The firms engage in a process called external environment analysis. This process includes four activities namely, scanning, monitoring, forecasting and assessing which must be done continuously. External environment analysis is conducted to recognize environmental changes, note the trends and identify the opportunities and threats. The opportunities are matched with firm's core competencies and the firm achieves strategic competitiveness. Because external environment is largely

uncontrollable, firms need to respond to the changes otherwise they will experience a strategic misfit and success will be difficult.

### **1.1.2 The Cooperative Movement in Kenya**

A cooperative is an association of persons who have voluntarily joined together to achieve a common economic and social end, through the formation of a democratically controlled business organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking (Ouma, 1988). He further argues that the cooperative sector has been identified throughout the world as one of the surest ways through which people can be democratically involved in the social and economic development.

The cooperatives by Africans were founded in 1930s and their development was slow due to lack of encouragement by the colonial government. However it was not until after independence that the impact and the vital role of cooperative movement were recognized. The Cooperative movement in Kenya dates back to 1931 when the first ordinance to regulate the operations of the cooperatives in the country was enacted. The following decade witnessed increased intervention in the sector with the eventual enactment of the Cooperative Ordinance Act of 1945, the predecessor of the current Cooperatives Societies Act, Cap. 490 of the laws of Kenya- as amended in 1997 (Ouma, 1988).

Savings and Credit Cooperatives (SACCOs), can be described as associations of people brought together by a common goal of improving their livelihood economically.

SACCOs are an important segment of the financial sector in Kenya. They provide savings, credit and insurance services to the Kenyan population. The Government of Kenya is the one responsible for the enactment of SACCO legislation, implementation of international financial performance standards and the supervision of SACCOs in Kenya (Co-operative Societies Act, 2005).

Savings and Credit Cooperatives (SACCOs), are registered and regulated under the Cooperatives Societies Act. The Act requires the society to have membership of at least 10 members and above. The Act also requires that the society should have the following objectives: Promote the welfare and economic interests of its members and incorporate in its bylaws the cooperative principles. These cooperative principles are; Voluntary and open membership, Democratic control of membership, Economic participation by members, Autonomy and independence, Education, training and information, Cooperation among cooperatives, and Concern for the community in general (Co-operative Societies Act, 2005).

The largest in all of Africa, the Kenyan credit union system comprises 4200 registered SACCOs throughout the country, according to the Central Government of Kenya. The SACCO has to operate according to the following aspects of prudential management of societies as provided for in the Act: No member other than a cooperative society shall hold more than 20% of the issued and paid up capital for any cooperative society, Books of accounts must be kept and audited every year by an external auditor appointed at the

annual general meeting and that the registrar can carry out an inquiry or inspection of a cooperative society at the expense of the society (Co-operative Societies Act, 2005).

SACCOs in Kenya constitute a critical part of the financial system. They have been experiencing changes in growth of their membership and capital. Given the SACCOs tremendous outreach and the significance of maintaining its sustainability, the Government of Kenya passed the Sacco Act of 2008. The sector had no formal regulation and the Act therefore provided a formal structure for implementing regulation and supervision. Of late, there is an entry of a new regulator, the SACCO Societies Regulatory Authority (SASRA), which has been mandated to license and supervise the SACCOs. SACCOs have made various changes in reaction to their dynamic environment characterized by increased competition, advanced technology and changing consumer demands. They have done marketing and promotions to increase loyalty and get new members, diversified through opening branches in different geographical areas and have increased resource mobilization.

### **1.1.3 Unaitas SACCO Society Limited**

Unaitas SACCO Society Limited was registered and licensed in 1993 as a savings and credit society under the name Murangá SACCO. Its registered office is in Murangá town. The objective of the SACCO was based on the need to provide tea farmers with the express aim of pooling together their resources to create a strong credit base and use it for lending to members at low interest rate. The society was steered and promoted by the members of Kenya Tea Development Agency (KTDA), mainly consisting of the tea

factory directors, tea board members and tea officers. The SACCO later adopted the name Muramati SACCO in 2007 when administrative areas of operation expanded beyond Murangá to Maragua and Thika districts. The SACCO started serving a wide range of clients including tea growers, medium size entrepreneurs and salaried employees. In line with its growth and expansion strategy, Muramati SACCO rebranded to Unaitas SACCO in 2012.

Unaitas SACCO started with membership of 200. Currently the membership is above 85000 and the branches have grown in numbers to 15. Unaitas mobilized its initial capital from its 4000 members who contributed the SACCO shares from their tea proceeds through the check off system. As the capital base expanded, the SACCO started front office services in 1997 and offered savings and credit products that could compete effectively with other mainstream financial institutions. These positive developments have been realized because of professional approach to business, efficiency and embracing the latest technology.

The business environment has not been stable for Unaitas SACCO because of high competition, changing demands from customers, technological advancement, political and legal changes. Unaitas SACCO has been competing with established banks for customers. Apart from banks Unaitas competes with other SACCOs thus making the competition stiff. To remain relevant in the financial sector, Unaitas SACCO had to position itself in the market in order to have an edge over the rest. The SACCO has done this through marketing and promotion, public relations department, diversification of its



products, expansion through opening new branches, rebranding, having easy access to loans and selling shares.

The customers have been demanding for better services and to retain them they must be satisfied. Public relation department was therefore developed so that the SACCO can have good communication with its customers. The technology has been advancing and the SACCO had to move with the time. It did this through computerizing its operations, opening a website and having electronic money transactions through visa Automated Teller Machines (ATMs) and m-sacco services. Unaitas SACCO has also been affected by political and legal changes in its business environment. These changes are strong and the SACCO cannot do a thing about them, it can only comply. Some of these changes are the SACCO ACT of 2008 and SASRA.

## **1.2 The Research Problem**

The business environment is rarely stable and many of the external forces can change quickly and dramatically and are usually beyond the organization's control. In today's highly competitive market, organizations must be aware of the environment in which they operate and the external factors that influence them. The external factors pose opportunities and threats to organizations and can alternatively create new opportunities and new threats. Opportunities enhance or favor achievement of objectives while threats hinder achievement of objectives. While it is true that managers may have little or no power to change the external environment, they have no alternative but to respond to it (Weihrich, Cannice & Koonz, 2008). Organizations can only adapt to changes in the

external environment. They neither can change the environment nor stop it from changing.

Environmental conditions currently facing SACCOs are different from those of past decades. They have experienced tremendous technological changes, economic instability, cut throat competition, rapid sociological changes and governmental policies. These changes in the business environment determine the success and profitability of SACCOs. Unaitas SACCO like many other SACCOs has been experiencing turbulence in its business environment. To respond to the strong wind of change, the SACCO needs to devise ways to cope with the changeability and predictability of its business environment.

Research has shown that external environment plays a significant role in growth and profitability of organizations (Hitt & Ireland, Hoskisson, 1997). After reviewing the literature, it is true that several studies have been done to address strategic responses to changes in the business environment in Kenya. Nyiramatama (2011), did a study on Strategic responses by Banque Populaire Du Rwanda to challenges in the external environment where she found out that, organizations must change as business environment changes. Lwanga (2011), did a study on Strategic responses of SACCOs to changing competitive business environment: A study of KUSSCO affiliated SACCOs in Nairobi County and she found out that response strategies used in SACCO industry are important in helping an organization improve in performance and competitive edge. Mbae (2010), did a study on the Response strategies by Meru Central Dairy Cooperative Union Limited to the changes in the dairy industry. From the study she found out that

competition has intensified and the company has adopted several strategies to respond to increased competition. Opondo (2009), did a study on Responses of SACCOs based in Nairobi to changes in the external environment. Mutua(2009), studied Strategic responses by Harambee SACCO to changing operating environment. Mwangi (2008), did a study on Responses of Savings and Credit Cooperative Societies to challenges of competition in the Kenyan financial sector: The case of SACCOs in Eldoret.

Though several studies on organization responses to business environmental changes in Kenya have been done, none has been done on strategic responses by Unaitas SACCO to changes in its business environment. This research gap will be answered once a case study is conducted to know whether Unaitas SACCO has experienced changes in its business environment and what strategic responses they have formulated. What strategies did Unaitas SACCO formulate in response to its dynamic business environment?

### **1.3 Research Objective**

The major objective of the study was to identify the strategic responses used by Unaitas SACCO to cope with changes in its business environment.

### **1.4 Value of the Study**

This study will show that Unaitas SACCO interacts with its business environment which is turbulent and complex. It will narrow the existing knowledge gap on the response strategies that Unaitas SACCO use to cope with its business environment. . The study will be a good source for literature review. The academia and students pursuing further

research on business environment will get information from this study and fill the knowledge gap.

This study will help Unaitas SACCO during its policy development. It will guide Unaitas Board and Management on business environmental issues that require strategic responses. The study will help Unaitas SACCO management to scan, monitor and forecast its business environment. It will help them during their internal audit to take stock of their strengths and weaknesses and benefit from opportunities while successfully responding to threats.

This study will guide the SACCO on how to deal with GOK regulations, technology advancement and Socio-Economic issues. The SACCO Management should comply with GOK regulations to avoid confrontation or closure, invest more on technological advancement to become more efficient and effective. It should also continue with its expansion strategy through opening more branches to increase its market share

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter consists of review of existing literature on the topic of study. It presents the external environment as a product of three major components namely; general, industry and competitor environments. It focuses on strategic responses that an organization takes to remain relevant in the industry and have a competitive edge above its competitors. The strategic challenge is to understand these environments and their implications for appropriate strategies to be formulated and implemented.

### **2.2 Relationship between Organization and the Environment**

Organizations are environment serving or environment dependent. They depend on the environment for their inputs and outputs. The relationship between an organization and the environment can be examined from two perspectives namely; open system theory and contingency theory. Open system theory views the organization as a complex set of many interdependent elements that relate with its external environment. According to this theory, an organization operates as a system that interfaces and interacts with its environment by receiving inputs from and delivering outputs to the environment. Contingency theory on the other hand is a behavioral theory that claims that there is no best way to organize a company or make decisions.

According to Bateman and Zeithaml (1993), organizations are open systems that are affected by, and in turn affect their external environment. Stoffels (1994), observes that a firm is not isolated from its environment but interacts with it. He says that, at the

boundary between the firm and the environment, there exist input and output dependencies of the organization. The flow of their inputs and outputs is governed by the nature of components of their business environment. The flow will depend on the forces emanating from their business environment. These forces are; political, legal, economical, technological, substitute products and customers. The forces affect the organization by posing opportunities or threats to the organization as it endeavors to achieve its objectives. The opportunities are those conditions in the general environment that may help the firm realize its strategic competitiveness. Threats on the other hand are conditions in the general environment that may hinder strategic competitiveness of a firm. In other words, opportunities are possibilities in the general environment whereas threats are potential constraints in the general environment. Through an integrated understanding of their business environment organizations gain information needed to understand where it is and to predict where it wants to go.

The open system perspective of an organization involves four activities. These activities comprise gathering inputs from the environment, processing these inputs into products or services, returning these products or services to the environment for use by other organizations, and lastly the environment reaction to these outputs through a feedback loop that becomes an input for the next cycle of the system.

By expanding on the fundamental concepts of open system theory, the contingency perspective contends the management strategies, structures and processes that cause high

performance depend on the characteristics and important contingencies of the situation in which they are applied (Bateman & Zeithaml, 1993).

The contingency perspective recognizes that managers do not operate in a vacuum. This theory is of the view that managers and organizations must adapt and respond to their situations. It also suggests that managers can change the situation and match the situation to the organization.

### **2.3 The Business Environment**

It is composed of factors beyond control of the firm. These factors influence the firm in its choice of direction and action, organizational structure and internal processes. These factors that constitute external environment can be divided into 3 interrelated subcategories. These are, factors in remote environment, factors in industry environment and factors in operating environment. Remote environment comprises factors that originate beyond and usually irrespective of any single firm's operating situation (Pearce & Robinson, 1997). That environment presents the firm with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence. Remote environment is composed of various factors that can be categorized using the PESTEL model. These factors are political, economic, socio-cultural, technological, ecological and legal.

Political factors define the legal and regulatory parameters within which the firm must operate. Political constraints are placed on firms through, fair-trade decisions, antitrust

laws, tax programs, minimum wage legislation, pollution and pricing policies. These actions are aimed at protecting employees, consumers and the environment. Laws and regulations are restrictive in nature and they reduce the firm's productivity. Economic factors on the other hand concern the nature and direction of the economy in which a firm operates (Pearce & Robinson, 1997). Economic environment cover all the economic activities in a country such as inflation rates, bank lending rates, balance of payments, level and growth of GDP, growth of population and factors affecting that growth like HIV and Aids (Yabs, 2010).

Socio-cultural factors involve beliefs, values, attitudes, opinions and lifestyles of people in firm's external environment. As social attitudes change, so does the demand for various types of products. Social forces like other forces in remote external environment are dynamic, with constant change resulting from efforts of people to satisfy their desires and wants by controlling and adapting to environmental factors. Technological factors influence the industry in which a firm operates. Creative technological adaptations can suggest possibility of new products, manufacturing and marketing techniques. Technological forecasting is thus important because it improves productivity of firms and also alerts managers of opportunities and threats. Ecology refers to relationship among human beings and other living things and air, soil and water that support them. Specific concern includes global warming, loss of habitat, biodiversity and pollution. As a major contributor to ecological pollution, business is being held responsible for eliminating the toxic by-products of its manufacturing processes and for cleaning up the environmental damage it did (Pearce & Robinson, 1997).



According to Yabs (2010), legal environment refers to the legal framework within a country. It covers the setting of business laws that deny or allow the company freedom to do business. Positive laws protect the operations of the firm these include such laws as provision of grants by government, giving concessions, special preferential licenses, patent laws, trademark laws etc. Negative laws refer to those laws that place restrictions on the activities of the firm. These include all kinds of licenses, import regulations, minimum wage laws, use of child labor, anti pollution laws and practice of social responsibility.

An industry is a group of firms producing products that are close substitutes. In the course of competition these firms influence one another (Hitt, Ireland & Hoskisson, 1997).The Industry Environment has a more direct effect on strategic competitiveness and above average returns. The intensity of industry competition and industry's profit potential are a function of five competitive forces. Porter's framework popularly known as the five force model is one approach to understanding industry competition. Porter (1980), discusses five forces that determine the nature of competition in an industry. Porter's five forces analysis is a framework for industry analysis and business strategy development. The forces determine competitive intensity and therefore attractiveness of a market. These forces are; The threat of new entrants, rivalry among competitors, threat of substitute products, bargaining power of suppliers and bargaining power of buyers.

New entrants to an industry pose a threat to existing organizations. This is because these new organizations bring with them additional production capacity, substantial resources

and keen interest in gaining large market share. As a result, supply of goods and services goes up and this brings down demand. All organizations in the industry therefore experience loss of revenue and lower returns unless the product demand is increasing. The likelihood that organizations will enter an industry is a function of two factors namely barriers to entry and the retaliation expected from current industry participants (Hitt, Ireland & Hoskisson, 1997). Existing organizations block other new organizations from entering the industry through raising barriers such as mass production to cut on production costs, product differentiation for customer loyalty, high switching costs, monopoly of distribution channels, government policies and others.

Competitive rivals are organizations with similar products and services aimed at the same customer group (Johnson, Scholes & Whittington, 2008). Where competitors are equal in size, there is intense competition as one competitor attempts to gain dominance over the other. Competition also becomes intense when organizations in their pursuit of growth take market share from competitors. This eventually leads to price wars and differentiation which are indicators of competition. As more substitutes become available, demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices. Threat of substitutes typically impacts on industry through price competition. Price competition leads to lower prices that eventually lead to lower profit margin.

Bargaining power of suppliers is described as the market of inputs. Suppliers of raw materials, labor and services to the organization can be a source of power over the

organization. When there are few substitutes, suppliers may refuse to work with the organization or charge excessive high prices for unique resources. In a market with many suppliers and less buyers, the buyer sets the price. This is because they are more likely to shop around and get the best price. In this market, the cost of switching a supplier is low and involves little risk. There is also a threat of the supplier being acquired by the buyer or the buyer setting up in competition with the supplier. This is called backward integration and might occur if satisfactory prices or quality from suppliers cannot be obtained (Johnson, Scholes & Whittington, 2008).

## **2.4 Strategic Responses to Changes in the Business Environment**

Firms face different, continually changing challenges and for many firms the challenges of tomorrow will be different from those of yesterday (Ansoff & McDonnell, 1990). Mintzberg, Lampel, Quinn and Ghoshal, (2003), argue that companies must be flexible to respond rapidly to competition and market changes. They must benchmark continuously to achieve best practices and must outsource aggressively to gain efficiencies. They further point out that these companies must nurture a few core competencies in the race to stay ahead of rivals. These organizations must respond to the ever changing business environment or risk being forced out of business.

According to Thompson, Strickland and Gamble, (2007), managers must evaluate their company business prospects through answering the following three questions; what is the company's present situation? Where does the company need to go from here? How should it get there? To know the company present situation, managers need to evaluate

the existing industry conditions and competitive pressures, the current performance and market standing, its resources, strengths and capabilities and its competitive weaknesses. Managers must also make choices about the direction that the company should take. They should aim at satisfying their customer needs and explore the changes that are required in their company. Lastly the management must craft and execute a strategy that is capable of moving the company in the intended direction, growing its business and improving its financial and market performance.

The management counters the changes through formulation of strategies that will make the organization to grow, attract and please customers, compete successfully, conduct operations and improve the company financial and market performance. According to Johnson, Scholes and Whittington, (2008), strategy exists in three levels namely; corporate, business and operational strategies.

Corporate level strategy is concerned with the overall scope of the organization and how value will be added to the different parts of the organization. The strategy will focus on expansion or reduction of the geographical coverage, diversification of products or services and how resources will be allocated between the different parts of the organization. (Porter, (1980), argues that, there are three different generic strategies by which an organization could achieve competitive advantage. These are the overall cost leadership, differentiation and focus.

The business level strategy is about how to compete successfully in particular markets. It is focused on how to increase market share and take advantage over competitors through marketing and advertisements, promotions, sponsorship and rebranding. Johnson, Scholes and Whittington, (2008) argues that it is concerned with how value might be created as business units interact with customers in their markets. Lastly the operational level strategy is about how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people.

Mintzberg, Lampel, Quinn and Ghoshal, (2003), points out that every company must be willing and ready to modify its strategy in response to changing market conditions, advancing technology, the fresh moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy and mounting evidence that the strategy is not working well. They further argue that, a company's strategy evolves incrementally from management's ongoing effort to adjust certain strategy elements in response to unfolding events. Ansoff and McDonnell, (1990), are of the opinion that the responsiveness of the firm's organizational capability must be matched to the environmental turbulence.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research methodology that was used in the case study. The research methodology included research design, data collection and data analysis.

### **3.2 Research design**

A case study method was used during the research. A case study is an in-depth study of a particular research problem rather than a sweeping statistical survey. It is an exploratory research technique that intensively investigates one or a few situations similar to the researchers' problem situation.

It is often used to narrow down a broad field of research into one or a few easily researchable examples. The case study research design is also useful for testing whether a specific theory and model actually applies to phenomena in the real world. It is a useful design when not much is known about a phenomenon.

### **3.3 Data collection**

Both primary and secondary data were gathered for the study. Primary data are data gathered for the first time by the researcher whereas secondary data are data gathered from primary sources to create new research.

Primary data were obtained through interviewing the respondents using an interview guide. The interview guide is a set of questions that help the researcher direct the

conversation towards the topics and issues to be discussed. The interview guide helps the researcher to know, what to ask about, in what sequence, how to pose a question and how to pose follow ups. The respondents were Unaitas SACCO Board and the executive. The board chairman and three Branch managers were interviewed. Secondary data were obtained from Unaitas SACCO website and strategic plans. The data obtained were ; History of Unaitas, vision and mission, expansion of branches strategy, capital raising initiatives and membership drive.

### **3.4 Data Analysis**

The data collected were analyzed using content analysis technique. Content analysis studies the message itself through observing and analyzing the contents of the documented data. Its breadth makes it flexible and wide ranging tool that may be used as a stand alone methodology or as a problem specific technique.

The data were arranged according to particular research questions with similar answers being given the same code. The data were then presented in a continuous prose as a qualitative report on the response strategies used by Unaitas.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION**

### **4.1 Introduction**

This chapter gives the findings, analysis and interpretations of the data collected from Unaitas SACCO. It presents findings and analysis of the case study. The data were gathered from respondents using an interview guide as the research instrument.

### **4.2 Unaitas SACCO'S Business Environment**

The business environment is composed of factors beyond control of the firm. These factors influence the firm in its choice of direction and action, organizational structure and internal processes. Unaitas SACCO like any other organization is an open system that interacts with its business environment. It gathers and coordinates inputs from the environment. These inputs are ;human resources, financial resources, information and equipment. Unaitas transforms these inputs into products and services which are returned to the environment as outputs to be used by other organizations and individuals.

The business environment surrounding Unaitas SACCO has been dynamic because of high competition, changing demands from customers, technological advancement, political and legal changes. These changes have posed opportunities as well as threats to Unaitas SACCO. The firm has been competing with established banks, other SACCOs, microfinance institutions, and many other lending institutions for customers. To remain relevant in the financial sector, Unaitas SACCO responded to changes in its business environment.



### **4.3 Strategic Responses by Unaitas SACCO to Changes in the Business Environment**

In this case study, an interview was conducted using an interview guide. The interview targeted the Board chairman and five branch managers. The interview guide explored how the three components of the external environment namely; remote, industry and operating environments have influenced the operations of Unaitas and what strategic responses have been put in place.

While responding to the question on whether Unaitas has been influenced by the changes in its business environment, the respondent said, “Yes, we have been influenced by changes in our working environment. These changes range from new technologies, high expectations from our customers, increased Government supervision, weather fluctuations, to increased competition. To analyze these changes, the study will look at the changes in the remote environment through PESTEL model (Pearce & Robinson, 1997) and the changes in the industry environment through Porter’s Five Forces model (Porter, 1980).

Regarding the question on the role played by the Government of Kenya on the firm, the interviewee indicated that, “The GOK plays a very central role in registration and regulation of SACCOs. It is the one responsible for enactment of SACCO legislation, implementation of International financial standards and supervision of SACCOs in Kenya”. The GOK passed the Sacco Act of 2008 to provide a formal structure for implementing, regulating and supervising saccos. The GOK has further introduced a new

regulator called, the SACCO Societies Regulatory Authority (SASRA), to license and regulate SACCOs. The interviewee says, “SASRA rules are bulky and interfere with governance of the firm because they control the number of meetings, allowances, taxes and the insurance. SASRA rules further direct that one of their officers must be in attendance during the SACCO Annual General Meeting”. These changes are strong and the firm’s response was to comply with them.

While responding to the question on whether technology has an effect on the way business is done in Unaitas, the interviewee said, “Technological changes cannot be ignored because they affect the way business is done in Unaitas SACCO. We have computerized our systems and processes”. To achieve the desired industry competitive advantage while keeping pace with changes in the banking business environment, the SACCO responded by making several technological changes. These changes are, introduction of mobile banking known as M-SACCO to reduce long queues, interlinking branches for effective and efficient information sharing, computerized processes and systems and online marketing. In the near future, according to the information gathered from the interviewee, the firm intends to do internet banking and to install Automated Teller Machines.

The study further established that there are Socio-economic issues that determine the growth and profitability of the firm. The respondent indicated that, “inflation affects the savings and fixed deposits. It also leads to multi-borrowing”. When inflation rises, customers save less because most of their income goes to basic needs like food which are

now expensive. Inflation also leads to multi borrowing where customers borrow in more than one bank. Multi borrowing further lead to high default rate since the income the customer gets can't sustain loan repayments. Other factors that cause default are low production of crops due to unfavorable weather changes, sub-division and leasing of tea bushes whose produce was to service loan, putting into wrong use the loan borrowed such as drunkenness and many others. The situation gets worse during recovery of the loans because customers shift loyalty to other financial institutions where they have no loans. The respondent said, "We have responded to these problems through trainings and advice on financial management. We have also set aside an annual information day where we meet our customers for exchange of information".

On the question about industry competition, the interviewee said, "We face competition from other lending institutions". Their competitors are established local and international banks, micro-finance institutions, other sacco, table banking and shylocks. These financial lending institutions have led to cut throat competition for the market share and Unaitas had to develop strategies to have an edge above the rest. Some of the strategic responses that the sacco undertook are marketing and advertisements, diversification, rebranding, partnership, differentiation, cost leadership and diversification.

Marketing develops the awareness and associations in consumer memory so that customers know and are constantly reminded which brands best serve their needs. Unaitas has done marketing through print media, billboards, road shows and

advertisements through television and radio. The SACCO has also a functional department of marketing.

The study also established that in 2012 Unaitas SACCO rebranded from Muramati to Unaitas. Rebranding is the creation of a new name, term, color, symbol or design for an established brand with the intention of developing a differentiated position in the mind of stakeholders and competitors. Through rebranding, the firm gained a national outlook. This enabled it to implement its expansion strategy. The expansion strategy aimed at taking the SACCO beyond central province so as to increase its market share. They have opened new branches in Nairobi, Rongai, Kasarani and Nakuru. Apart from its diversification to new geographical areas, Unaitas has also diversified its products to suit all age groups from the children, youths and adults. These products are Jolly junior account, piggy banking, group loans and many others.

The interviewee said that, “for a long time, Unaitas wanted to be incorporated into the National Payment System to so that we can clear cheques and operate current accounts”. However in April 2013, Unaitas entered into partnership with ABC Bank, where the Bank will clear the Sacco’s cheques. The partnership will see Unaitas’ customers leverage on ABC Bank to access trade finance services, treasury management services, agency banking and diaspora remittances.

#### **4.4 Discussion of Findings**

This case study found out that Unaitas SACCO, just like every other organization affects and is affected by its environment. It was found that Unaitas operate within an external environment comprising of competitors, customers, technology, economy, government and the community. This is in agreement with Stoffels (1994), who argue that a firm is not isolated from its environment but interacts with it.

The PESTEL framework categorizes environmental influences into six main types: political, economic, social, technological, environmental and legal (Johnson, Scholes & Whittington, 2008). This study shows that Unaitas SACCO has been influenced by the different categories of its environment in one way or the other. The business environment is turbulent and complex.

The respondents said that Unaitas SACCO, has experienced constant changes in how they operate. They are now under the new watch of SASRA rules which were introduced under the SACCO Act of 2008. These rules are bulky and interfere with Unaitas governance. SASRA officials attend SACCO meetings, limit meetings, control allowances, and vet SACCOs. SASRA is a GOK regulator whose mandate is to license and supervise SACCOs. It can be seen from this study that the GOK has an influence in operations of Unaitas. The response strategy that Unaitas SACCO took was compliance.

The study shows there are Socio-Economic issues that affect Unaitas competitive position. Social issues are about the target population size, age, geographic distribution,

ethnic mix and income distribution, whereas Economic issues refer to the nature and direction of the economy in which Unaitas competes. These Socio-Economic issues have forced Unaitas to continuously scan, monitor and forecast their business environment, for environmental changes, trends, opportunities and threats. Unaitas strategies towards Socio-Economic issues are; a large population of employed and business people. This is why they are expanding through opening branches in towns. They re-branded in 2012 to remove the ethnic barrier and this increased their geographical distribution. There is stiff competition between financial institutions for a market share. These firms are employing all tactics to have a competitive advantage. That is why Unaitas entered into partnership with ABC Bank to leverage on cheque clearance.

The study further established that, Unaitas has kept pace with technological changes. According the respondents, Unaitas has used the latest technologies to upgrade its systems, connect its branches, for m-sacco services and for online marketing. The respondent said this is a strategy aimed at making the SACCO to be more effective and efficient. This study concurs with a previous study done by Johnson, Scholes and Whittington, (2008) that found out that, the ways in which the technology is exploited are where advantage may be created.

This study shows that there is cut throat competition amongst financial institutions. The respondent said they continuously do evaluation to know their strengths and weaknesses. This concurs with SWOT Analysis theory where a firm looks at its Strengths,

Weaknesses, Opportunities and Threats. This theory helps the firm to know what strategic responses to take so that it can have a competitive advantage over its rivals.

This study was in agreement with previous study by Mbae (2010), which found out that competition has intensified and companies adopted several strategies to respond to the increased competition. The respondents said they face competition from established local and international banks, micro-finance institutions, other sacco, table banking and shylocks. The study found out that, strategic responses were made to achieve some advantage for the organization over competition. These strategic responses were; marketing and advertisements, diversification, re-branding, partnership, differentiation, cost leadership and diversification. The study shows Unaitas used two of Porter's generic strategies.

According to the study marketing was done through print media, billboards, road shows and advertisements through television and radio. According to the respondents, Unaitas has diversified to include in its portfolio real estate business and "chamas". This was aimed at increasing its market share. In 2012 Unaitas re-branded from Muramati so that it can have a national appeal. In 2013, Unaitas was incorporated into the National Payment System so that it can clear cheques and operate current accounts. Unaitas has earned the loyalty of its customers by giving them low interest loans to achieve its cost leadership strategy.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the data findings on strategic responses by Unaitas Sacco to changes in the business environment. This chapter further provides the conclusion, the recommendations by the researcher and the areas for further research. The chapter is structured into summary of the findings, conclusion and recommendations for further research.

### **5.2 Summary of the findings**

According to the study findings, Unaitas Sacco is influenced by the forces from its environment. The SACCO faces macro-environment, industry and operating forces. The management evaluated the existing industry conditions and competitive pressures, the current performance and market standing, its resources, strengths and capabilities and its competitive weaknesses. The management had to craft and execute a strategy that is capable of moving the company in the intended direction, growing its business and improving its financial and market performance.

The management responded to those changes through formulation of strategies that made the organization grow, attracted and pleased customers, competed successfully or made competition irrelevant, advanced their technology and explored political and legal challenges that faced the company, conducted operations and improved the company



financial and market performance. The strategy formulated was at corporate, business and operational levels.

At corporate level strategy the management was concerned with the overall scope of the organization and how value will be added to the different branches and departments of Unaitas. The strategy focused on expansion of branches, diversification of products and how resources will be allocated. The business level strategy focused on how to compete successfully in particular markets. It is focused on how to increase market share and take advantage over competitors through marketing and advertisements, promotions, sponsorship and rebranding. Lastly the operational level strategy was about how the component parts of the SACCO would deliver effectively the corporate and business level strategies in terms of resources, processes and people.

### **5.3 Conclusion**

According to the study findings, Unaitas SACCO have been interacting with its turbulent business environment for survival. It gets its inputs from its business environment and it gives its outputs back to its business environment. It operates as an open system.

This interaction has been with the GOK through its registration and regulation. This is done through SASRA which is a GOK regulator. Technological changes have been rapid and complex and this has forced Unaitas to upgrade its systems. Unaitas has also experienced competition from other financial lending institutions and it did a SWOT analysis and devised strategies to give it an edge over its competitors.

The changes in the business environment that face Unaitas are dynamic and strategic responses need to match these changes. These changes emanate from remote environment, business environment and the operating environment. Strategic responses change as much as the business environment changes. Unaitas therefore regularly must conduct research and development to be ahead of its competitors.

#### **5.4 Recommendations for Policy and Practice**

The business environment facing Unaitas is turbulent. It is therefore important as a matter of policy for Unaitas to develop strategies that will help it cope with the environment. The SACCO should devise strategies that will; give it a competitive edge above its rivals, expand its customer base and increase its product range.

In practice, the study recommends that Unaitas should, continuously scan, monitor and forecast its business environment. It is important that the SACCO should comply with GOK regulations to avoid confrontation or closure, invest more on technological advancement to become more efficient and effective. It should also continue with its expansion strategy through opening more branches to increase its market share. Lastly it is recommended that Unaitas should invest in research and development to realize the opportunities available. It should also urgently start agency banking in areas where they are less viable.

## **5.5 Limitations of the study**

In the process of conducting the case study, various challenges could have an effect on the end result. Some of these challenges were questions which were not well understood. The answers given by the respondent also varied depending on how well the question was understood. Some respondents didn't give much detail whereas others were very open and willing to share.

The fact that the branches where the interview was conducted are in a different environment setting could have contributed to the variance in the answers given. The number of the branch managers interviewed could also have an effect in the final result in that perhaps some information was left out. The time allocated for the interview was also a challenge because of the tight schedule of the managers.

The case study research design used may have some challenges in that vital information may be missing, making the case hard to interpret. Another challenge is that, the case may not be representative or typical of the larger problem being investigated. This methodology may bias the researcher's interpretation of findings due to intense exposure to study of the case.

## **5.6 Suggestions for Further Research**

This study suggests that a different research instrument be used to verify whether the research will get the same findings. Other factors that should be varied are time allocated

to respondents to answer the questions, the number of respondents and the type of research design used.

To get a comprehensive analysis of the response strategies, a survey should be conducted on all the branches under Unaitas SACCO. Instead of using the interview guide to collect the data, the study suggests that a questionnaire should be used. This research instrument is more detailed and will give respondents ample time to prepare for the answers. The study therefore suggests that, there is a need for further research on this area of study to determine whether there will be new findings.

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## **APPENDIX I: LETTER OF INTRODUCTION**

Box 4270, Madaraka

12<sup>th</sup> November 2013

0729706330

Dear Sir/ Madam,

RE: REQUEST TO COLLECT DATA IN UNAITAS

Am a student in University of Nairobi pursuing Master of Business Administration course. To accomplish the course a student must attempt and pass theory and practical. I have completed theoretical part and am now to start the practical part which requires the student to study a firm. I have chosen to do a case study on Unaitas titled, “Strategic Responses to the Changes in the Business Environment by Unaitas SACCO Society Limited, Kenya”.

The study will acknowledge that firms face continually changing challenges and for many firms, the challenges of tomorrow will be different from those of yesterday. As a result, each firm needs to diagnose its unique pattern of future challenges, threats and opportunities. Each firm must therefore design and implement its unique response to these challenges.

To support my argument with facts, am requesting to collect data from your firm by interviewing your employees at the senior management level. I wish to do the interviews in at least three branches of Unaitas SACCO.

I sincerely appreciate your support.

Maina Peter Kaburi

D61/72830/2009

**APPENDIX II: UNIVERSITY OF NAIROBI LETTER OF INTRODUCTION**

### **APPENDIX III: INTERVIEW GUIDE**

This chapter is concerned with the interview in qualitative research. The approach is less structured and there is emphasis on greater generality of information in the initial research ideas and on interviewees' own perspectives.

Research Questions:

1. Could you please tell me whether Unaitas has been influenced by changes in its business environment?
2. Does the Government of Kenya play any role in your operations such as registration and regulation?
3. How do the technological changes affect the way you do business?
4. Is there a relationship between Kenyan Growth Domestic Product and economic growth potential of Unaitas?
5. Are there factors that determine competition and profit potential in the financial industry?
6. Does entrance of new SACCOs in the market pose threats to existence and profitability of Unaitas?
7. How do you compete with other SACCOs for market share?
8. What is the influence of other financial lending institutions on Unaitas?
9. Do your employees and your suppliers influence the operations of the SACCO?
10. Do your customers influence your expansion and returns?
11. What strategies have you adopted in response to competition from other financial lending institutions?
12. Have you diversified to both new markets and products?
13. Have you rebranded and why?
14. Have you employed Porter's generic strategies of overall cost leadership, differentiation and focus?

Thank you, for giving me your time.