



INFLUENCE OF EXTERNAL ENVIRONMENT ON STRATEGIES ADOPTED BY DEPOSIT TAKING SACCOS IN KENYA: A SURVEY OF DEPOSIT TAKING SACCOS IN NAIROBI COUNTY

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ABSTRACT

The operations of any organization are affected by influences emanating from both internal and external environment. Most of those from internal environment are effectively addressed by the management. However, the external environment in which organizations operate is characterized by constant changes resulting from remote factors that are beyond the organizations capability to respond. A host of external factors influence a firm's choice of direction and action and ultimately its organizational structure and processes. Coping with the increasingly competitive and dynamic environments therefore calls for SACCOs to continuously rethink on their strategies.

The main objective of this study was to assess the influence of external environment on strategies adopted by deposit taking SACCOs and the population of interest comprised of all the 35 deposit taking SACCOs in Nairobi County. This study adopted a descriptive research design and collected primary data using structured questionnaires. Descriptive statistics was used to analyze data by way of percentage or proportion, mean and frequency distribution. The data analysis tools of Statistical Package for Social Sciences (SPSS) version 21 were used, to give a deeper insight into the responses from the respondents into the subject of the research.

The findings of the study revealed that the deposit taking SACCOs in Nairobi County face many challenges due to constantly changing external environment and therefore they have to set out strategies in order to adapt to the challenges. These environmental factors include political/legal factors and technology related factors. Based on the findings of the study, the researcher recommended that the management of the SACCOs should also concentrate on product development strategies such as product refinement, developing new products for the existing, expanding the product lines in response to the environmental challenges facing the SACCOs. These will assist the SACCOs maximize revenue from the existing market and therefore remain competitive. This is because SACCOs target a particular group of people who have common interests and such SACCOs as Staff SACCOs have a limited number of members especially the ones serving members of staff in small organizations. Diversification strategies also need to be considered in order to increase their market share.

Key Words: External Environment, Strategies, Deposit Taking

INTRODUCTION

Background of the study

Cooperative societies are ideally democratically controlled organizations and observe equitable contribution of capital, sharing risks and benefits accruing from the business of the organization. They are legal business entities whose objective is to improve the living standards of the group members by pulling together their limited economic resources and doing business under their respective enterprises while enhancing social, cultural cohesiveness of group members (ICA, 1995). SACCO societies play a significant role in empowering their members' socio-economic status all over the world. In Western Europe for instance there are around 11,000 local and regional savings and credit cooperatives with 33 million strong memberships and a market share of 17 percent (Ombado, 2010).

A Saving and Credit Co-operative society accords members an opportunity for saving regularly, accumulating the savings and thereby creating a pool from which they can borrow exclusively for productive purposes at fair and reasonable rates of interest than would be obtained in other financial Institutions (Ouma,2009). A study by Gachara (2010) found that SACCOs are seen as vehicles for resource mobilization and gateways to economic prosperity for families, communities and nations. These two studies are in agreement with the primary objectives of a SACCO which is: the creation of an opportunity to the members to save and later borrow.

Studies have been carried out on response strategies in a number of industries. Mpungu (2013) recommends that companies scan their immediate environment for survival purposes in a study on the strategic responses to changing environmental conditions at AAR Health Services Ltd. Ndubi (2012) identified the major

environmental challenges faced as staff turnover and heavy government regulation and the leading response strategy is marketing of services.

Kenyan perspective

The Cooperative movement in Kenya dates back to 1931 when the first ordinance to regularize 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 Co-operative Ordinance Act of 1945, the predecessor of the current Co-operative Societies Act, Cap. 490 of the laws of Kenya - as amended in 2007. Savings and credit cooperative societies (SACCOs) are registered and regulated under the Co-operative Societies Act.

SACCOs are accorded the same treatment as producer or marketing cooperatives, and to qualify for registration they are not required to raise any capital. In addition, SACCOs are restricted in terms of where to invest their funds of deposits (SACCO Act, 2008). The Kenyan co-operative sector is rated the best with the highest source mobilization in Africa and 7th in the world according to survey carried out by the International Co-operative Alliance (ICA).Currently Kenya is the chair of ICA Africa Inter-ministerial Committee (WOCCU statistical report 2012).

Statement of the Problem

Environmental conditions currently facing SACCOs are different from those of past decades. They have experienced tremendous technological changes, economic stability, cut throat competition, rapid sociological changes and government policies. To respond to this strong wind of change, deposit taking SACCOs need to devise ways to cope with changeability and predictability of its environment. Research has shown that external environment plays a

significant role in the 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 external environment in Kenya. Opondo (2009) did a study on responses of SACCOs based in Nairobi to changes in external environment, Mutua (2009) studied strategic responses by Harambee SACCO to changing operating environment. Though several studies on organization responses to external environmental changes in Kenya have carried out, none has been done on the influence that external environment has on strategies to be adopted by deposit taking SACCOs.

The research gap was then to assess the influence that external environment has on strategies adopted by deposit taking SACCOs. The final analysis indicated that external environmental factors are dynamic and very influential in setting SACCOs strategies. This therefore shows the importance of the deposit taking SACCOs to study the external environment regularly so that they can respond to it appropriately and hence remain in business.

Research objectives

The main aim of the study was to assess the influence of external environment on strategies adopted by deposit taking SACCOs. This was supported by the specific objectives of the study which were To examine the extent at which political and legal factors and Technological factors influence the strategies adopted by deposit taking SACCOs.

Research Questions

- i. To what extent does political and legal factors influence the strategies adopted by deposit taking SACCOs?

- ii. How does technological factors influence the strategies adopted by the deposit taking SACCO?

Scope of the study

Currently, there are 135 deposit taking SACCOs in Kenya that have complied with SASRA regulations. A survey of all the 35 SACCOs in Nairobi County was carried out since the county has majority of the deposit taking SACCOs that have already complied (SASRA report 2014).The research assessed the influence of external environment on strategies adopted by the deposit taking SACCOs.

THEORETICAL FRAMEWORK

a) Institutional Theory:

Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent" (or they become legal mandates). At this point new and existing organizations will adopt the structural form even if the form doesn't improve efficiency. (Meyer and Rowan 1991) argue that often these "institutional myths" are merely accepted ceremoniously in order for the organization to gain or maintain legitimacy in the institutional environment.

Organizations adopt the "vocabularies of structure" prevalent in their environment such as specific job titles, procedures, and organizational roles. The adoption and prominent display of these institutionally-acceptable "trappings of legitimacy" help preserve an aura of organizational action based on "good faith".

Legitimacy in the institutional environment helps ensure organizational survival. However, these formal structures of legitimacy can reduce efficiency and hinder the organization's competitive position in their technical environment. To reduce this negative effect, organizations often will decouple their technical core from these legitimizing structures. Organizations will minimize or ceremonialize evaluation and neglect program implementation to maintain external (and internal) confidence in formal structures while reducing their efficiency impact.

Tolbert and Zucker (1996) confirmed the hypothesis that while early organizations adopt the new form to improve efficiency, later organizations adopt the structural form to maintain legitimacy. The theory is relevant to the deposit taking SACCOs as it depicts the environments the SACCOs operate in. Deposit taking SACCOs are regulated by the SACCO act through SASRA. The regulations keep changing and SACCOs have to adhere with the directives. SASRA is a body that influences the operations of the deposit taking. It seeks to harmonize some operations by issuing some directives that SACCOs are meant to adhere to. Example of indirect regulations includes the compliance requirements.

b) Innovation diffusions theory

This theory explains how new ideas and Innovations are spread and adopted by new cultures. The theory seeks to examine critical factors in diffusion of innovations. They are what qualities make an innovation spread, the importance of peer-peer conversations and peer networks. Diffusion of Innovations takes a radically different approach to most other theories of change. Instead of focusing on persuading individuals to change, it sees change

as being primarily about the evolution or “reinvention” of products and behaviours so they become better fits for the needs of individuals and groups. In Diffusion of Innovations it is not people who change, but the innovations themselves. The theory gives reasons why certain innovations spread more than others and others fail.

These reasons include the Relative advantage of the innovation in comparison to the others, the innovations compatibility with existing values and practices; Simplicity and ease of use; Trial ability and Observable results (M.Rogers,2003)

The theory is relevant to this study as it can make a valuable checklist to frame focus group discussions or project evaluations. They can help identify weaknesses to be addressed when improving products or behaviours. Success of SACCO products and services rests on continuous improvement. It also highlights the importance of inter-personal marketing through peer-peer conversations which financial institutions today call word of mouth from satisfied customers (Parcell, 2004). The theory emphasis on the importance of understanding the needs of different users of SACCO products.

Conceptual Framework

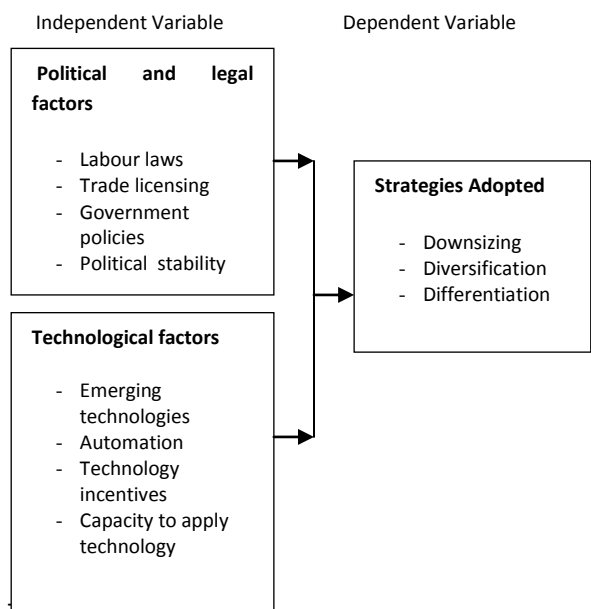


Figure 2.1: Conceptual Framework

a) Political and legal factors

Sessional paper No. 6 of 1997 on “cooperatives in liberalized economic environment” (Republic of Kenya, 1997) provides the current policy framework for cooperative development in Kenya. The policy was formulated after the liberalization of the economy which necessitated the withdrawal of the state control over the cooperative movement. The aim of the policy was to make cooperatives autonomous, self reliant, self controlled and commercially viable institutions.

In response to the inadequacies of the 1997 policy, the ministry of cooperative formulated a revised policy framework titled “Kenya cooperative development policy 2008”. The main theme of the new policy was “expanding the economic space for sustainable growth in Kenya”. Its main focus is on restructuring, strengthening and transforming cooperatives into vibrant economic entities that can confront the challenge of wealth creation, employment creation and poverty reduction as private business ventures. With the liberalization of the economy SACCOs began diversifying from their traditional Back office services activity (B.O.S.A.) products to Front Office Services Activity (F.O.S.A.) products.

With the diversification in financial services offered by SACCOs, the borderline between them and the services offered by commercial banks became more and more blurred. It therefore became necessary over time to provide a specific regulatory framework for SACCOs. The SACCO societies Act No. 14 of 2008 whose commencement date was 26th September 2009 and the SACCO societies (Deposit Taking Business) Regulations 2010 whose commencement date was 18th June 2010, is the legal framework informing SACCO sector in Kenya. Before 2009 the SACCO sector was primarily guided by the

cooperative societies act No. 12 of 1997 as amended in 2004 (Republic of Kenya, 1997).

b) Technology

Technology can be defined as knowledge, products, processes, instruments, procedures and systems which helps in producing goods and services. Information technology has become a key business function for almost every organization and most have great expectations of their investment in information technology for future benefits to the business expectations that will enable the business to reduce cost, enhance productivity, implement new business strategies, gain competitive advantage etc.

Many organizations are spending more and more on information technology management system (Carr, 2003). Information technology can help a firm to achieve price leadership and internal processes efficiencies (Bruce, 1998) and it can radically change the way business is conducted.

Recent studies of corporate IT spending show that great expenditures rarely translate into superior financial results (Carr, 2003). The critical answer involves the creation of optimal alignment of IT with existing business strategies, and the effective use of application of information technology to serve business strategies. Organizations should focus on obtaining strategic alignment between IT and business strategy to increase its competitive advantage.

Nowadays being competitive depends on effective use of information technology to manage information resources. According to (Avison et al 2004) failure to leverage IT may seriously decrease a firm performance and viability. Alignment between IT and business strategy enables efficient and strategic use of IT to obtain and sustain competitive advantage. Alignment is the degree to which IT mission, objective and plans are supported by business mission, objectives and plans.

Empirical Review

According to Pearce and Robinson (2013), the factors that influence a firm's operations can be divided into three interrelated subcategories; factors in the remote environment, factors in the industry environment, and factors in the operating environment. Factors in the remote environment are political, economic, social or technological. Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. These include tax policy, employment laws, environmental regulations, trade restrictions and tariffs and political stability.

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. These include economic growth, interest rates and inflation rate. Social factors include demographic and cultural aspects of external macro environment. Some social factors are health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety.

Technological factors can lower barriers to entry, reduce minimum efficient production levels and influence outsourcing decisions. Some of these are research and development activities, automation, technology incentives, and rate of technological change. Porter (2005) presented five forces that affect an industry environment also called the operating environment. These are rivalry among competing firms, bargaining power of suppliers, bargaining power of customers, threat of new entrants and threat of substitute products.

Ansoff and McDonnell (2010) notes that, strategic responses involve changes to the organizations' strategic behavior. Such responses may take many forms depending on the organizations' capability and environment in which it operates. Well-developed and targeted strategic responses are

formidable weapons for a firm in acquiring and sustaining a competitive edge. The strategic responses include new products, new markets, new processes, new services and new strategies for attacking the markets. Porter (2005) states that the corporate strategist's goal is to find a position in the industry where his company can best defend it against the competitive forces or influence them in his favour. Knowledge of the underlying five competitive forces provides the groundwork for a strategic agenda of action.

They highlight the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas where strategic change may yield the greatest payoff and highlight the places where industry trends promise to hold the greatest significance as either opportunities or threats (Porter, 2005).

There are as many response strategies as there are challenges. However, beneath the subtleties and superficial differences, there are impressive similarities between different response strategies when one considers a company's market target and type of competitive advantage the company is trying to achieve (Thompson & Strickland, 2008). Five categories of competitive strategy approaches stand out as follows (Porter, 2005).

Critique of Existing Literature

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Research Gap

Over time, SACCOs have been trying to address challenges as results of the external changes in the environments in which they operate. However, they have not been able to grow their wealth sufficiently using management strategies to respond to the challenges in order to finance non-withdraw able capital funded assets, provide cushion to absorb losses and impairment of members' savings.

Previous studies (Agrawal et al., 2012 and Ogsi, 2011) have shown that lack of Growth of SACCOs' Wealth has threatened their sustainability such that they have not been able to absorb their operational losses. This has led to the losses being absorbed by members' savings and share capital

which leads to their impairment. According to Financial Stewardship theories (Zetsche, 2007) stagnation of growth of SACCOs' wealth is attributable to Financial Stewardship. While the purpose of SACCOs as put by Munyiri (2012) and Ofei (2005) is to mobilize members' funds and grant credit for the members' development, this stagnation has made it difficult for the SACCOs to grow their wealth, achieve this objective and contribute favorably to National Domestic Savings. While the above studies have been conducted in Kenya, a conclusive study on the influence of external environment on strategies adopted by deposit taking SACCOs was vital. The main aim of this study was therefore was to fill the gap.

RESEARCH METHODOLOGY

Research Design

The researcher used descriptive research design. This is a scientific method which involves observing and describing the behavior of a subject without interfering with it in any way. According to Mugenda and Mugenda (2008), a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest.

Population

Population in statistics is the specific population about which information is desired. According to Field (2011), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. Population studies are more representative because everyone has equal chance to be included in the final sample that is drawn. The population under study is of similar characteristics and consisted of all the 135 deposit taking SACCOs licensed by SASRA as at January 2014.

Sampling Frame

The sampling frame for this study consisted of the 35 deposits taking SACCOs in Nairobi County. Mugenda and Mugenda (2008), defines a sampling frame as a list of the target population from which a random sample may be selected. It is the source material or device from which a list of all elements within a population that can be sampled is drawn It facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random variable.

Sample and Sampling Technique

Purposive sampling was used to determine the sample. A sample is a set of individuals selected from a population and is usually intended to represent the population in a research study (Neuman, 2000). Ngechu (2012) underscores the importance of selecting a representative sample through making a sampling frame. A sample size must be carefully selected to be representative of the population so as to eliminate biasness that may arise. At the period of the study there existed 35 deposit taking SACCOs in Nairobi. The 35 SACCOs as translated to 26% of the total population as shown in the table 3.1. This is supported by (Mugenda 2009) who recommends that at least 10% of the population is enough and representative for descriptive survey studies. The 35 SACCOs formed a representative sample size because most deposit taking SACCOs are headquartered in Nairobi and that is where the major SACCOs operate from.

Table 1 Sampling Size

Population Strata	Population	Sample %	Sample Size
Deposit taking SACCOs	135	26%	35

Data Collection Method

Primary data was used for this research. According to Mugenda & Mugenda (2008), data collection instruments are the tools and procedures used in the measurement of variables in research.

The data was collected using the pre-designed questionnaires which were both closed and open ended to enable the respondents give additional information. A scale of 1-5 multiple choice questionnaires was administered to the selected SACCOs' management staff, and executive committee members who have been in the firms for at least three years using drop and pick later technique. They included the C.E.O or the General Manager, Marketing manager or the Operations Manager since these are the ones who are involved in the crafting and implementation of response strategies in their respective organizations

The main advantage of close ended questions is that they were easier to analyze since they were in immediate usable form. The approach helped in reducing biasing error since the respondent was not influenced by the interviewer's characteristics and it also gave the respondents' time for considered answers. The questionnaires were hand delivered by the researcher and handed over to the respondents for filling in. They were then collected back after two weeks.

Data Processing and analysis

Data analysis is the process of bringing order, structure and meaning to the mass of information collected. It involves examining what has been collected and making deductions and inferences (Kombo and Tromp 2010).

This study used descriptive statistics to analyze the data. According to Mugenda and Mugenda

(2008), descriptive statistics enabled meaningful description of a distribution of scores or measurements using a few indices or statistics.

Data collected from the study was qualitative data. Primary data obtained from the Deposit taking SACCOs` Chief Executive officers or General Managers and Finance managers was analyzed using spreadsheets and other computer tools available. The data was tabulated from the data collection forms and the researcher computed mean scores and standard deviation of the qualitative information collected using five point scales which was analyzed using data analysis tools of Statistical Package for Social Sciences (SPSS). Presentations of the results was done using tables, bar and pie charts. In addition, multivariate regression model was applied to determine and establish the relationship between changes in external environment and strategies adopted by deposit taking SACCOs in Nairobi County. The study used linear regression model as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 \text{ Where :-}$$

Y = Strategies adopted (Dependent variable)
Measured in terms of ratings (1 to 5)

α =constant. It defines the value of Y if all independent variables have a value of Zero

X_1 = Political and legal

X_2 = Technology changes

β_1, β_2 , = Regression Co-efficient. This defines the amount, by which Y is changed for every unit change of predictor variables (X_1 , and X_2).

FINDING AND DISCUSSION

Response Rate

A total of 35 questionnaires were fielded and all of them were returned. This represented 100% response rate.

Demographic Information

Gender

The researcher sought to establish the gender distribution of the respondents, based on the data presented 41% of the respondents were female while 59% were male, the findings imply that there was a good gender representation that was adequate for the study.

Age

The findings on the age distribution of the respondents, based on the data, 38% were aged between 25-34 years, 26% were aged between 35-44 years, 18% were aged between 45-54 years. Only 6% of the respondents were aged over 55 years, the findings imply that the respondents gave accurate information on the influence of external environment on the strategies adopted by the deposit taking SACCOs since a greater proportion of the respondents were above the age of 25 years and therefore they had adequate work experience in the financial industry in which the SACCOs operate.

Highest Level of Education Attained by the respondents

The highest level of education attained by the respondents, based on the findings, a greater proportion (47%) had bachelor's degrees, 28% had master's degrees, and 23% had College/University Diplomas while only 2% indicated that they had doctorate degrees. The findings imply that the respondents gave accurate and reliable information on the influence on

external environment on the strategies adopted by deposit taking SACCOs since with their education levels; it was evident that they had an in-depth understanding of the operations of the respective SACCOs.

Duration of working at the SACCOs

The study findings found out that the duration the respondents had worked at their respective SACCOs, based on the data, 12(34.3%) had worked at their respective SACCOs for a period of 4-5 years, 10(28.6%) had worked for 6-7 years while 9(25.7%) had worked in the respective SACCOs for over 7 years. Only 4(11.4%) had worked in the respective SACCOs for less than 3 years, the findings imply that the respondents had gave reliable and accurate information for the study since majority had worked in the respective SACCOs for more than 4 years and therefore they understood the influence of external environment on strategies adopted by the deposit taking SACCOs very well.

Ownership of the SACCOs

The researcher sought to establish the ownership of the SACCOs, based on the findings 54.3% were owned by employees of particular organizations or companies, 13(37.1%) were trader based while only 3(8.6%) were owned by farmers. The findings imply that most of the deposits taking SACCOs operating in Nairobi County are owned by employees of certain organizations or companies and very few farmers' owned deposit taking SACCOs are operating in Nairobi County. This can be attributed to the nature of business environment in Nairobi County.

Qualitative Analysis of the Study

Numerical data was obtained from 35 Nairobi based Deposit taking SACCOs that are also members of KUSCCO. The data collected was used

to calculate the means and standard deviation of Political environmental/legal factors and Technological changes and socio economic environmental factors that influence the strategies to be adopted by DTS in Nairobi. The variables under investigation for this research were; Descriptive statistics, beta coefficients and Coefficient of correlation. With the use of SPSS software, the researcher was able to summarize and interpret the raw data.

External Environmental Changes

a) Political and Legal Factors

Table 2 Political and Legal Factors

Political and Legal Factors	Mean	Standard Deviation	N
Labour laws	4.2305	0.9872	35
Trade licensing regulations	4.4567	1.0339	35
Government policies	4.6572	0.9456	35
Political stability/instability	4.5341	0.8451	35
Environmental policies and regulations	2.4784	0.5630	35
Trade restrictions	4.7214	0.8312	35

The respondents were instructed to indicate the extent to which political/legal factors influenced the strategies adopted by the regulated deposit taking Saccos in Nairobi County. The responses were rated on a Likert scale of 1 to 5 where 1= Not at All, 2= Little extent, 3=Moderate extent, 4= Great extent and 5= Very great extent. . A mean (M) score of 0-1.5 means that the factors did not influence strategies at all, between 1.50 to 2.50 means the factors influenced strategies to a little extent, 2.50 to 3.50 means the factors influenced strategies to a moderate extent, 3.50-4.50 means that the factors influenced strategies to a great extent, and a mean above 4.50 means that the factors influenced strategies to a very great extent. Based on the findings presented on table 4.1, the respondents reported that the following factors influenced strategies adopted by deposit

taking Saccos in Nairobi County to a Very great extent: Government policies (M=4.6572; SD=0.9456); Political stability/instability (M=4.5341; SD=0.8451); Trade restrictions (M=4.7214; SD=0.8312). Labour laws (M=4.2305; SD=0.9872) influenced the strategies to a great extent while environmental policies and regulations (M=2.4784; SD=0.5630) influenced the strategies adopted by the deposit taking Saccos in Nairobi to a little extent.

b) Technological Changes

Table 5 Technological Changes

	Mean	Standard Deviation	N
Emerging technologies in the finance sector	4.5491	0.9645	35
Automation of financial services	4.7842	0.7823	35
Level of customers' usage of technology	4.5673	0.7321	35
Technology incentives available to the SACCO	4.5672	0.8435	35
SACCO's capacity to apply technology	4.5234	0.4556	35

Table 5 presents the findings on the technological related factors that influence the strategies adopted by the deposit taking Saccos in Nairobi County. The responses were rated on a Likert scale of 1 to 5 where 1= Not at All, 2= Little extent, 3=Moderate extent, 4= Great extent and 5= Very great extent. A mean (M) score of 0-1.5 means that the factors did not influence strategies at all, between 1.50 to 2.50 means the factors influenced strategies to a little extent, 2.50 to 3.50 means the factors influenced strategies to a moderate extent, 3.50-4.50 means that the factors influenced strategies to a great extent, and a mean above 4.50 means that the factors influenced strategies to a very great extent. Based on the findings, the following influenced the strategies Automation of financial services (M=4.7842;SD=0.7823); Level of customers' usage of technology (M=4.5673;SD=0.7321); Technology incentives available to the SACCO (M=4.5672;SD=0.8435) and SACCO's capacity to apply technology (M=4.5234; SD=0.4556).

Strength of the model

Analysis in table 6 and 7 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R^2 equals 0.843, that is, Political/Legal factors and Technology leaving only 15.7 percent unexplained. The P- value of 0.001 (Less than 0.05) implies that the model of strategies adopted by the deposit taking SACCOs to respond to the external environment is significant at the 5 percent significance.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635 ^a	.403	.798	.801

a. Predictors: (Constant), Political and Legal factors, Technology,
 b. Dependent Variable: Strategies adopted

Table 7: ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	93.144	4	23.286	79.730	.000 ^a
	Residual	53.739	56	.292		
	Total	146.883	60			

a. Predictors: (Constant), Political/Legal factors, Technology
 b. Dependent Variable: Strategies adopted

ANOVA findings (P- value of 0.001) in table 7 show that there is correlation between the predictor’s variables (Political/Legal factors and Technology factors) and response variable (Strategies Adopted). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent variable) than there is within each group, referred to as the error term.

Table 9: Coefficients of Regression Equation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	.240	.258		.930	.354
	Political/Legal	.294	.077	.297	3.798	.000
	Technology	.430	.070	.188	3.290	.001

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	Political/Legal	.294	.077	.297	3.798	.000
	Technology	.430	.070	.188	3.290	.001

a. Dependent Variable: Strategies Adopted

Significance level: p < 0.001; N =35

Overall model: F = 79.730; p < 0.001; R² = 0.403; Adjusted R² = 0.798

The established multiple linear regression equation becomes:

$$Y = 0.240 + 0.294X_1 + 0.430X_2$$

Where

Constant = 0.240, shows that if the external environmental factors i.e Political/Legal factors and Technology factors are all rated zero, the strategies adopted by the deposit taking SACCOs in Nairobi County would be 0.240

X₁= 0.294, shows that one unit change in political/legal related factors in 0.294 units increase in the strategies adopted by the deposit taking SACCOs in Nairobi County.

X₂= 0.430, shows that one unit change in technology results in 0.430 units increase in the strategies adopted by the deposit taking SACCOs in Nairobi County.

c) Strategies adopted by deposit taking SACCOs

Table 4.11: Strategies Adopted by the SACCOs

Strategies	F	%
Downsizing	5	14.3
Diversification	18	51.4
Differentiation	12	34.3
Total	35	100%

The researcher sought to establish the strategies adopted by the deposit taking SACCOs in responding to the external environment, based on the data presented on table 4.11, a greater proportion (51.4%) of the respondents reported that their deposit taking SACCOs were involved in diversification to respond to the external environment. Another 34.3 percent reported differentiation in terms of products and services in order to improve the financial performance of the deposit taking SACCOs in the highly competitive environment. Only 14.3% of the respondents reported that their SACCOs were undertaking downsizing as a strategy to respond the changes in the external environment.

Opportunities Created by the changes in external environment and Strategies to be adopted.

The researcher identified the following opportunities created by the new SACCO regulatory environment: Ability to attract more savings due to improved confidence in the SACCO; development of new products and services; opportunity to raise more capital and merge with other SACCOs; High uptake of loans as a result of wider market outreach; Safety of members funds hence more deposits by member and general public confidence. The environment has also enabled the SACCOs to offer products and services that were mainly left for the commercial banks. The following were identified as the major competitors to the SACCOS in Nairobi County: banks, microfinance institutions, merry go rounds,

non formal financial institutions and mobile money services such as Mpesa and Mshwari.

The research revealed that SACCOs can exploit business opportunities created by the ever changing external environment by adopting various strategies depicted by the changes. Strategies which were mostly preferred by the SACCOs included; Differentiation and repositioning the SACCOs as a market driven financial intermediary. Some general examples of differentiation suggested by the respondents included better service levels to customers, better product performance, design of special brand images, technology features and through people differentiation – hiring and training better people than competitors do. Differentiation strategies aim to achieve competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers. The other strategy was diversification and spreading its wings to serve a wider catchment area and Optimizing on the opportunity to lend more, sell more shares and develop more products and services targeting the existing and new markets. Research indicated that deposit taking SACCOs can remain relevant in the market if they diversify around a set of core resources and capabilities that they are specialized enough to confer a meaningful competitive advantage in a dynamic business environment, yet adaptable enough to be advantageously applied. Downsizing strategy is not widely used among the deposit SACCOS as indicated by the analysis.

Challenges faced by deposit taking SACCOs in Nairobi

The respondents cited the following challenges as deterring the deposit taking SACCOs from

exploiting the identified business opportunities: Lack of adequate policies and procedures, conflict of interest by some leaders, Inadequate utilization of technology, resistant to change by staff and Board of Directors (BOD) and members, ineffective organizational structures, inadequate skills and human resource capacity, poor corporate governance and public image, loan delinquency and default, liquidity challenges, Inefficient business operations and processes Cost implications and rigid policies and Inadequate staff capacity.

It was however noted that the SACCOs can address the challenges by: Leveraging on the existing technological; platform such as mobile banking, enhancing online membership applications to enhance service delivery, proper loan appraisal, encouraging members to save more, developing savings products such as fixed deposit accounts, and children's accounts, striving to comply with regulations and improving communications at all levels within the SACCOs' networks.

Other findings on how to address the challenges included: Educating staff and board members to accommodate desired changes, business planning and training at all levels, improving governance structures and financial education. The research found that the SACCOs should engage in shares drive so as to increase its capital and solve liquidity problems, recruitment of qualified staff that can effectively manage the SACCOs and also conduct extensive marketing research and marketing activities to increase the uptake of services and products and products provided by the SACCOs.

SUMMARY OF FINDING

The study revealed that the deposit taking Saccos in Nairobi County face many challenges due to constantly changing external environment and

therefore they have to set out strategies in order to adapt to the challenges. These environmental factors include political/legal factors and technology related factors. These are factors facing the Sacco Sector in the County as well as the Sacco Sector in the whole Country.

a) Political and Legal Factors

Research findings on political and legal factors revealed that the following factors influenced strategies adopted by deposit taking SACCOs in Nairobi County to a Very great extent: Government policies (M=4.6572; SD=0.9456); Political stability/instability (M=4.5341; SD=0.8451); Trade restrictions (M=4.7214; SD=0.8312). Labour laws (M=4.2305; SD=0.9872) influenced the strategies to a great extent while environmental policies and regulations (M=2.4784; SD=0.5630) influenced the strategies adopted by the deposit taking SACCOs in Nairobi to a little extent.

Political and legal factors influence the operations of the SACCOs due to the fact that some SACCOs cannot operate in certain areas due to the legal and political factors. However, new regulatory environment has created business opportunities to some SACCOs resulting to the growth of SACCOs' client base through spreading of their wings to serve other customers outside its conventional markets. The presence of a regulator has created an enhanced public image for most of the SACCOs. Ability to attract more savings due to improved customer confidence in the industry and the opportunity develop new products and services for the existing and new markets were also identified. SACCOs have also an opportunity to attract business clients, raise more capital and to merger with other SACCOs. Other opportunities have included enhanced lending capacity, strategic alliances and partnerships and invading the Micro-finance industry.

b) Technological Factors

Regarding the findings on the technological related factors that influence the strategies adopted by the deposit taking SACCOs in Nairobi County, the following influenced the strategies Automation of financial services (M=4.7842; SD=0.7823); Level of customers' usage of technology (M=4.5673; SD=0.7321); Technology incentives available to the SACCO (M=4.5672; SD=0.8435) and SACCO's capacity to apply technology (M=4.5234; SD=0.4556).

Technology is a major factor that influences the performance of financial institutions and therefore with the advancement in technology, SACCOs are facing challenges in adapting to customers' needs regarding technology. SACCOs usually have limited capacity to adopt technological solutions relating to finance as compared to commercial banks which have enough funds to adopt to such technologies.

c) Strategic Business Opportunities

The major challenges that have greatly affected the growth of this sector include; employment laws, political instability, high interest rates, low economic growth rates, high population growth rate, poor age distribution, strong emphasis on safety, increase in automation and high rate of technological change. The following were identified as the major competitors to the SACCOs in Nairobi County: banks, microfinance institutions, merry go rounds, non formal financial institutions and mobile money services such as Mpesa and Mshwari.

Despite these challenges, most of the deposits taking SACCOs in Nairobi County have remained in operation for over ten years with some of them having over 30 years of operation. The main services offered by these SACCOs are: savings; offering loans such as personal loans, business loans and agricultural loans; training of the members; insurance and safe custody. The fact that these SACCOs have been able to remain in operation for this long is an indicator that they

have continuously adapted their strategy in line with these environmental changes.

The main response strategies which have enabled these SACCOs to remain in business are: targeting new market segments; identification of new potential users of their services; adding product features or product refinement and developing new products for existing market. The main pricing strategy employed in response to some of these challenges when setting charges by the SACCOs is setting charges based on the market. The SACCOs employ a cost leadership strategy in an effort to acquire a competitive advantage.

Conclusion

The Sacco sector is a very important part of our economy and very stable as many of them have remained in operation for over thirty years. However, it faces challenges just like any other sector. The major challenges that have greatly affected the growth of this sector in Nairobi County include; employment laws, political instability, high interest rates, low economic growth rates, high population growth rate, poor age distribution, strong emphasis on safety, increase in automation and high rate of technological change.

Just like other organizations, SACCOs have to respond to these challenges appropriately in order to remain in operation. The main response strategies employed by these Saccos in Nairobi County are targeting new market segments, adding product features or product refinement, setting charges based on market price and cost leadership strategies.

Recommendations

The management in the SACCOs should also concentrate on product development strategies such as product refinement, developing new products for the existing, expanding the product lines in response to the environmental challenges facing the SACCOs. These will assist the SACCOs

maximize revenue from the existing market and therefore remain competitive. This is because SACCOs target a particular group of people who have common interests and such SACCOs as Staff SACCOs have a limited number of members especially the ones serving members of staff in small organizations.

Diversification strategies also need to be considered in order to increase their market share.

Suggestions for Further Research

The study focused on the influence of external environment on strategies adopted by deposit taking SACCOs in Nairobi County. The researcher

proposes that a study should be carried out to establish the challenges facing the SACCOs in the implementation of various strategies within their organizations. This will enable the SACCOs' management to address these challenges and therefore improve on their competitiveness if they have to survive through the environmental changes. She also proposes a study to find out how the environmental factors affecting SACCOs in the County vary from one type of SACCOs to the other.

These findings will guide the SACCO management teams in their day to day activities in order to ensure that the organizations remain in business despite the challenges being faced.

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