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ABSTRACT

Organizations must have the ability to examine and make changes based on internal and external environmental factors that affect their performance. The study investigated the strategic responses to environmental changes by money transfer companies, Nairobi County, Kenya. The study used a descriptive survey with a population of 16 money transfer companies. This study used primary sources of data collected using a questionnaire. The findings showed that the companies had applied the following strategies to a large extent; professional customer care services (handling queries, improved response strategies, adoption of modern technologies for example ICT, providing quality and cost-effective products and services, improved speed and efficiency for service delivery, product diversification strategy and firm position through providing quality and reliable services for improved quality. The findings also revealed that the majority of the respondents stated that the strategies applied were moderately effective. The findings of the study will enable the policymakers to understand that money transfer companies are very significant sources of revenue through taxation if they start assessing it deeply from a neutral point of view and review and revise any laws of hindering the companies the right to license or register and to work freely here in Kenya just like the banks and the forex. The researcher recommended that a replicate study be done on commercial banks in Kenya. This would establish the strategic responses by commercial banks to the external environment.

Keywords: *Strategic Responses, Environmental Challenges, Competitive Advantage, Modern Technology, Product Differentiation*

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INTRODUCTION

Organizations must be capable of examining and make changes in line with internal and external environmental factors that affect their performance. Firms should align their goals and objectives to fit the changes in the external environment. Barney and Hesterly (2008) notes that change is unavoidable, and it is important for organizations to adopt competitive strategies to cope up with the challenges of competition in the business environment frequently change. With reference to Cameron, Kim, and Whetten (1997), environmental factors are categorized into two: external environmental factors and internal environmental factors. The external factors are found outside the organization and harder to control and predict for instance changes to the economy while internal environmental factors are events that are easier to control as compared to external factors for example employee's morale (Barney, 1991).

Johnson and Scholes (1999), a strategic response is defined as the actions that are put in place by a firm to suit the environment so as to cope up with competition and be relevant to the present market. Two types of responses determine the kind of decisions that a firm will make (Mintzberg, 1998). The responses can either be operational or strategic in nature. Operational strategies are routine in nature, they are operationally specific and have short-term implications on the organization. The operational responses are designed to assist the organization to operate smoothly and are established to boost efficiency and effectiveness in attaining the objectives and goals of the organization (Pearce and Robinson, 2005).

Strategic responses affect two levels in the organization which is: corporate and business levels. Strategic responses assist an organization to position align and position itself competitively to the environment to ensure that it can accommodate the changes in the external environment. Porter (1998), one of the reasons why some organizations succeed while others fail highly depends on the strategy they adopt and how well these organizations implement their strategy to satisfy the changing demands of the clients.

Mintzberg (1994) submits that the significance of strategic response is witnessed during conditions of combat and competitive threat within markets. Porter (2008) argued that today strategy has moved beyond defining strategy as a formal plan but that it is indeed the art of strategic response.

Many individuals and institutions provide money transfer services in Nairobi County. Some individuals use informal and common systems of transfer such as physical transport of cash themselves or via friends and relatives and other institutions and individuals make use of technology to transfer money. There are a number of international and local money transfer companies operating in Nairobi County including Western Union and Money Gram, Dahabshiil Money Transfer, Amal Express Money Transfer, and 13 money transfer operators notably Safaricom mobile money transfer known locally Mpesa licensed by CBK are competing stiffly in the Nairobi County money transfer market share however, Safaricom Mpesa is dominant in the Kenyan market and transfer annually estimated trillions of Kenya shillings within Kenya.

Mobile money transfer has highly substituted earlier money transfer services and so far has proved to be an efficient and effective way of transferring money both locally and internationally. In Kenya, we have four major players in mobile phone money transfer. These are: Safaricom with M-Pesa, Bharti Airtel with Zap, Essar Telecom with YUcash, and Orange with IKO pesa. All these offer money transfer services but with a different number of subscribers registered and using their service currently (Peake, 2006). Customers can use M-Pesa to transfer money, make withdrawals, deposits, and also make payments of goods and services (Lipa na M-Pesa) faster using their mobile device. The service allows users to make deposits of money to their mobile account, to send the money to other users using a PIN-secured message, and also to purchase goods and services. Clients can also redeem deposits for regular money (Wanyela, 2013).

Objectives of the Study

The main objective of this study was to investigate the strategic responses to environmental changes by money transfer companies, Nairobi County, Kenya. The study also determined the environmental challenges affecting money transfer companies in Nairobi County, Kenya, and establish the strategic responses adopted by money transfer companies in Nairobi County, Kenya to cope with the environmental challenges. The study was guided by the following specific objectives;

- To determine the environmental challenges affecting money transfer companies in Nairobi County, Kenya
- To establish the strategic responses adopted by money transfer companies in Nairobi County, Kenya to cope with the environmental challenges

Statement of the Problem

Beckman, Haunschild & Phillips (2004) indicate that companies are faced with various challenges emanating from the environmental challenges; this has forced most firms to develop strategies to counter these challenges in order to gain a competitive advantage. Meyer and Rowan (1998) argue that managers of any organization should consider the dynamics in the environmental challenges before making any decision, to successfully succeed in long term implementation of strategy; firms must compete well and out-perform their rivals in a dynamic environment. To accomplish this goal, the firm must find proper ways of enhancing customers' satisfaction by providing quality services that meet their increasing needs (Baum &Wally, 2003). A number of studies have been done globally and locally in relation to strategic responses to environmental challenges. Mohammed, Qorchi, Munzele& Wilson (2003) found out that money transfer firms up-graded their systems to provide more efficient services to their customers. This study investigated the strategic responses to environmental changes by money transfer companies, Nairobi County, Kenya. This study will be beneficial to the government and other policymakers in setting policies that enable firms to respond to various strategies so as to adapt to the changes in the external environment and maintain competitiveness.

LITERATURE REVIEW

Environmental Changes Facing Organizations

Bourgeois and Eisenhardt (1988) indicate that various frameworks and models have been established to assist organizations to examine and get to know the macro-economic environment that impacts their business. PESTEL is an example of such framework which stands for Political, Economic, Social, Technological, Environmental and Legal, that is used by organizations in studying macro-economic factors affecting their business and how they can make changes to cope up with the impacts. Environmental changes facing organizations are influenced by environmental dynamism and the turbulent nature of the business environment Barney and Hesterly (2008) argues that organizations should align themselves with the objectives of the firm to commit the resources of the firm (Barney, 1991).

Baum and Wally (2003) argue that organizations are influenced by political factors in many ways. Organizations can benefit from political factors. Similarly, they can place duties and obligations on firms. Examples of political factors include: legislation such as the minimum wage or antidiscrimination laws, tariffs or restrictions, market regulations, tax levies, trade agreements, and tax breaks. Organizations that fail to conform to legislative obligations are more likely to face sanctions like imprisonment, adverse publicity, and fines (Johnson and Scholes, 2001). Most organizations are influenced by global and national economic factors. National and global interest rates and fiscal policy is set around economic conditions. The economy's climate controls how suppliers, consumers, and other related investors such as creditors and suppliers will behave in society.

An economy experiencing a recession will have features like a high rate of unemployment, low confidence from investors, and low spending power (Beckman, Haunschild, and Phillips, 2004). Brass et al., (2004) further indicate that social factors influence the demand for goods and services. Organizations are also affected by social factors for example population demographics and distribution of wealth. In most cases, the demand for a company's product is affected by trends in social factors. For instance, a population that is aging may indicate a less-willing and smaller workforce (hence increasing labor cost). Also, organizations may make changes to some management strategies to make adaptations to the social trends like employing older workers.

Ansoff and McDonnell (1990) due to alterations in the external environment and the need to serve the increasing wants of customers most firms have adopted modern technologies in order to enhance communication between stakeholders. According to Brint (1998), organizations benefit from the faster exchange of information because they become in a position to respond earlier and make changes in their operating environment. The ability to respond quickly to various changes in the environment creates a need to deliver goods and services on time. Organizations should cope with the legal factors for example employment law, consumer law, health and safety law, discrimination law, and antitrust law. These factors influence the operation of an organization, its costs and the demand for its products and this may negatively impact on organizational performance of the firm (Boyd and Rasheed, 1993).

Strategic Responses to Environmental Challenges

Firms adopt various strategies to cope up with competition challenges. These strategic responses are product innovation, mergers and acquisitions, product differentiation, and cost leadership. Porter (2008) maintains that the firm that lacks resources is less creative faces competition from organizations that use modern technologies with innovative employees. Firms that develop innovative products benefit from reduced costs through providing value-added goods and services to customers. Some firms have invested in modern technology for example Information communication technology in order to counter the challenges of competition.

Pearce and Robinson (2005) indicate that the application of modern technology has enabled these firms to achieve a reduction in communication costs leading to improved decision making. Others have invested in innovative products that are cheaper and improved quality to meet customer satisfaction as a way of dealing with challenges of competition from technological advancements and development.

Von Hippel (2005) explains that the advantage of product innovation as a strategy is that it might be hard for other companies to copy similar products. Smaller companies that try to innovate new products may encounter challenges such as a lack of resources and modern technology to create new products in the market. Some firms are too small in size this limits them from enjoying discounts when purchasing raw materials and other products to run the firm.

Larger firms, on the other hand, enjoy economies of scale from discounts when purchasing goods and services. Some firms may respond to the challenges in environmental challenges by engaging in mergers and acquisitions in order to succeed in generating cost efficiency through the implementation of economies of scale.

Thompson and Strickland (2002) noted that joining the operations, through acquisition or merger is a good strategic option for attaining operating economies and strengthening the competitiveness of an organization, and opening up avenues for new market chances and opportunities. Additionally, acquisitions accomplished via stock purchases can lead to potential liability for the firm making the acquisition.

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Because of the nature of the turbulent environment, most firms have suffered huge financial losses due to specializing in one product or engaging in only one line of the business. This is risky because should that business or product fail to perform in the market the business stands a risk of total loss.

To counter this challenge, most firms have responded to this challenge by investing in more than one business or a variety of products so that should one investment fail to perform then the firm can benefit from the next investment. Kenny (2009), this mitigates the risk of investing and depending only on one line of business. The benefit of diversifying is that it enables the portfolio of the firm to grow both when markets boom and when returns decline. Through diversification, the firm can achieve positive returns in one market when another market is making bad returns (Gamble and Jain, 2008).

Porter (1998) indicated that due to competition in the market some firms have adopted product differentiation as a strategy to cope up with competition challenges in the marketplace. As a result, these firms have been able to position themselves competitively in the market as a way of achieving a competitive advantage against their competitors in the same line of business (Porter, 2008). Product differentiation leads to the provision of goods and services at a reduced cost, the firm is able to position itself as a brand in the market by aiming at a particular group of clients in the marketplace.

Cost leadership is also a strategic response used by firms producing and manufacturing with low cost in the marketplace enjoys the best profits. Production at a lower cost is a strategy that can be adopted by several firms so as to obtain a significant competitive advantage that can be of importance in a long-standing business environment. Having the knowledge of the fundamental source excreting pressure of competition gives a baseline for the action of strategic agenda (Porter, 2002).

METHODOLOGY

The study applied a descriptive survey. According to Kothari, (2005) a descriptive survey describes the characteristics of the phenomenon or population to be studied. It does not give answers to questions concerning when, how, and why the characteristics occurred. The researcher applied this design in his study because it helped him to describe the strategic responses to environmental changes by money transfer companies in Nairobi County.

The study population comprised 16 money transfer companies in Kenya licensed by the central bank of Kenya (CBK, 2014). Creswell (2003) defined a population as a collection of objects and individuals with similar characteristics. All objects or individuals in a population do have a unique binding feature or character.

A census survey was used; since the study involved only 16 money transfer companies in Nairobi County. Kothari (2005) notes that a census survey is appropriate an appropriate method when the researcher is collecting information from all units in the population or a 'complete enumeration' of the population. This kind of survey was appropriate in money transfer companies in Nairobi County because the population was small and the companies are located in the same place.

The study made use of primary sources of data. A structured questionnaire was used to collect primary data. Likert-type scaling measures were used to examine the constructs for each of the participating money transfer companies. The questionnaires contained closed-ended questions only. These kinds of questions were used because they provide an efficient way of collecting responses from a sample.

The questionnaire consisted of three sections: part A consisted of questions concerning overall information concerning the respondents and the company; the second part contained questions on the environmental challenges affecting money transfer companies in Nairobi County, Kenya while section C contained questions on the strategic

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responses adopted by money transfer companies in, Nairobi Kenya to cope with the environmental challenges.

The target respondents were CEOs, the operations managers and the marketing managers of money transfer companies in Nairobi County, Kenya. These categories of respondents were deemed as key informants of the study because they are highly involved in the operations and processes of money transfer in money transfer companies.

Data was gathered by the use of questionnaires that were administered to the participants using a drop and pick later method. The gathered data were cleaned, sorted, and then coded for analysis. Statistical package for social sciences was used for this purpose. The results of the analysis were presented in charts and tables. Percentages, Mean, frequencies, and standard deviation were used to show the frequencies of the various responses and their average. This information was then interpreted and these findings were observed to find out whether they are convergent or divergent with the empirical studies.

FINDINGS

Money Transfer Companies Response Strategies to Environmental Changes

Different companies have different ways of responding and reacting to changes in the environment. When there is a change in the external environment, organizations may apply any of the strategies in responding to them. Some of the strategies include opposition strategy where an organization can try means of stopping the effect. This can only be achieved in situations where the organization can control the environmental factor in question. Another strategy is the adaptation strategy, which requires the company to adapt to and get used to the new environmental condition. The study found it of paramount importance to find out the extent to which their organization had applied the stated response strategies to cope with environmental changes.

Table 1: Response Strategies to Environmental Changes

	Mean	Std. Deviation	t-test
Allocating more funds in research and development	2.5714	1.39859	6.879
Providing tailor-made services to meet customer needs	3.5000	.94054	13.924
Adoption of modern technologies for example ICT	4.0000	.96077	15.578
Product innovation for improved quality products and services	3.7857	.69929	20.256
Providing quality and cost-effective products and services	4.0000	1.00000	14.422
Professional customer care services (Handling queries, improved response strategies	4.3571	.74495	21.885
Product differentiation in terms of services provision	3.3846	.76795	15.891
Form strategic partnership-suppliers and other companies for risk reductions and improved performance	3.2857	.72627	16.928
Firm position through providing quality and reliable services for improved quality	3.7143	1.20439	11.539
Expansion strategy e.g. increase the scope of payout locations	3.7500	1.05529	12.310
Cost leadership strategy e.g. charging low commission to customers	3.5000	1.22474	10.693
Focus strategy to meet the needs of all categories of customers in the market	3.0000	1.03775	10.817
Product diversification strategy	3.9286	.91687	16.032
Improved speed and efficiency for service delivery	4.0000	1.24035	12.066

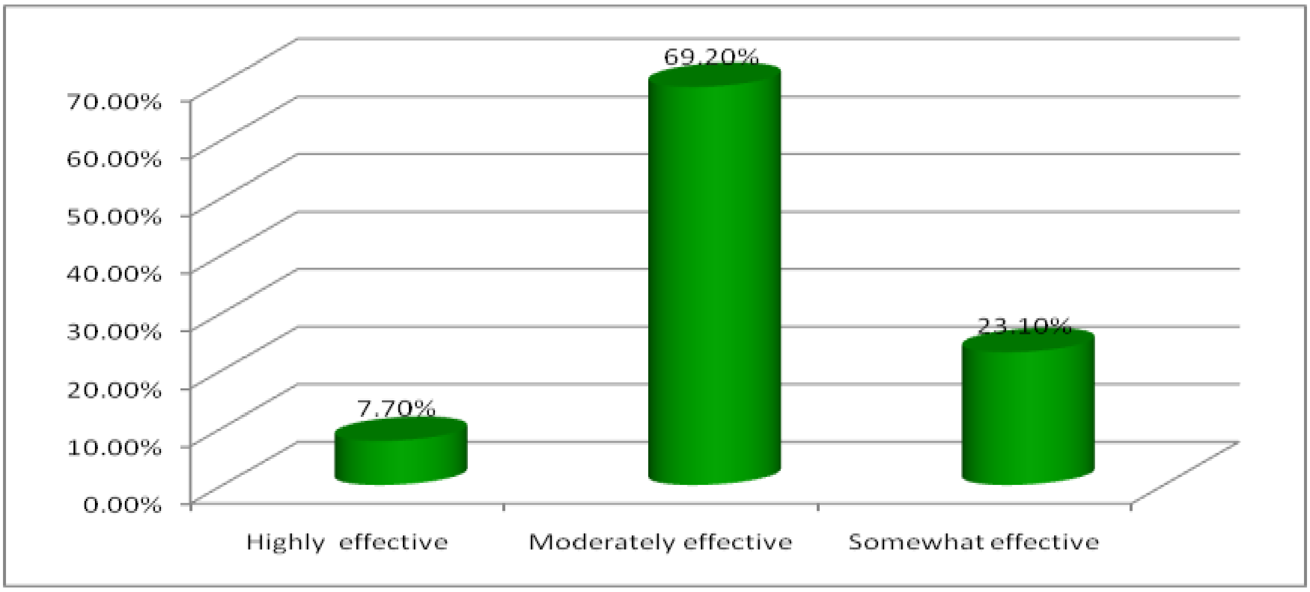
Source: Researcher (2015)

The findings shown in table 1, showed that the companies had applied the following strategies to a large extent; professional customer care services (handling queries, improved response strategies (mean=4.3571, standard deviation=.74495), adoption of modern technologies for example ICT (mean=4.0000, standard deviation=.96077), providing quality and cost-effective products and services (mean=4.0000, standard deviation=1.0000), improved speed and efficiency for service delivery (mean=4.0000, standard deviation=1.24035), product diversification strategy (mean=3.9286, standard deviation=.91687) and firm position through providing quality and reliable services for improved quality (mean=3.7143, standard deviation=1.20439). It is also worth noting that the companies had allocated minimal funds in research and development as shown by a very low mean of 2.5714 and a standard deviation of 1.39859.

There are statistical significant responses across the money transfer companies (relatively high t values, $p<0.05$) on the response strategies to the external environment by money transfer companies. When the impact of a change has become known to an organization, the response is triggered. Operating countermeasure is tried first but in a planned systematic manner. Once the firm has exhausted operating measures, attention is turned to strategic responses. It is significant to know that an appropriate response to changes that occur in an organization by a firm makes the company work effectively and become successful.

Effectiveness of the Strategies

The level of response to changes in the environment determines the success of an organization. Organizations must be capable of examining both their external and internal environment and respond appropriately so as to retain their competitive advantage. Unfavorable changes in the competitive environment affect the whole industry to a large extent.



Source: Researcher (2015)

Figure 1: Effectiveness of the Strategies

The participants were asked to rate the effectiveness of the strategies used by their organization to counter challenges in the external environment. According to the findings, the majority (69.2%) of the respondents reported that the strategies applied were moderately effective.

The study also indicated that 23.10% of the respondents believed that that the strategies applied were somewhat effective while only 7.7% of the respondents indicated that the strategies were highly effective. Figure 4.3 shows the findings of the study.

The organizations operate in a dynamic environment that changes frequently. Organizations are open systems and thus cannot operate without interactions with the environment. Strategy connects organizations to the environment. They have to implement strategies that are suitable to the environment so that they can operate effectively and be successful. Response strategies are important to money transfer companies since they operate in an environment that is constantly changing. When money transfer companies do not consider their response strategies or rather do not match the environment they operate in, they are likely to fail and become less competitive in the market. Money transfer companies are required to scan the environment and develop matching strategies to stay competitive in the marketplace.

Discussion

According to Bowman (1998), perceived benefits, readiness, and external pressures are important predictors of intent to gain response strategies by organizations, with readiness and external pressures being of greater significance as compared to perceived benefits. Numerous organizations have adopted strategies response since market complexity and turbulence have increased hugely in their external environment. For example, some organizations have chosen the strategy of the so-called international expansion, some have selected strategic alliance and acquisition strategy Glaister and Falshaw, (1999) whereas others have preferred stock listing and/or an increase in IT investment (Pellegrino and Carbo, 2001).

Few political and social certainties will shape the business: the collapsing birth rates, distribution of income shifts, global competitiveness, growing incongruence between political and economic realities (Drucker, 2002). The environmental factors define the future of an organization's internal structures. These factors are political/legal, economic, social-cultural, technological, and ecological.

Some of the trends in economics that affect industry include the general credit availability, level of disposable income, and the prosperity to spend. Since nations are interconnected as a result of the global economy, firms face yet a stiffer challenge of having to scan, monitor, forecast, and assess the health of the economies.

Technological changes affect many parts of society due to its diverseness in scope.

This segment includes the institution and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and raw materials. This is possible with firms that adapt early to the rapid changes in technology and hence achieving higher market share that result in higher returns.

The findings corroborated Ansoff and McDonnell (1990) who revealed that strategic responses encompass alterations in the strategic behaviour within an organization. Such responses and reactions may be of various forms concerning the ability of the organization and the operating environment of the firm. Companies with well-developed strategic responses sustain a competitive edge in the marketplace. Some of the strategic responses are like new processes, new products, new services, and new strategies for tackling the market competition. There are occurrences of many strategic responses to environmental factors. The company needs to create responses that address both internal and external environment factors so as to attain a sustainable Competitive advantage.

Concerning this point of view, the main aim of any strategy is to attain a long-standing sustainable advantage over the main competitors of the company in each business it is involved. (Majluf and Hax, 1991).

Thiga (2002) on the other hand dealt with the issue of strategic responses by focusing on the airlines operating in Kenya. As he found out, the airlines operating in Kenya respond to the competition by improving their quality, entering into strategic partnerships with other airlines, and by using price strategies. From these studies, it can be concluded that firms in different sectors of the economy employ various strategies to compete effectively in their respective industries.

Prahalad and Hamel (1994) reckoned that companies respond strategically to environmental influences to be sustainable since bigger competition intimidates the attractiveness of a firm and also reduces the profit. Therefore, companies should be active and come up with strategies that ensure an effective response to the anticipated environmental changes. In line with Thompson and Stickland (2002), scanning of the environment makes managers discover possible developments that could be of significance on company conditions resulting in the occurrence of threats and opportunities. This will help the managers to create appropriate marketing strategies which include segmentation, pricing, delivery, distribution, products, and promotion.

CONCLUSIONS AND RECOMMENDATIONS

Money transfer systems are moving from traditional physical payments to electronic payment systems. The electronic payment system has enabled both domestic and international systems of money transfer to compete for customer market share based on technological advancements and the provision of cheaper services.

The study concluded that money transfer services that are provided by both formal and informal providers charge a lot of transaction fees. The banks don't care about the financial standards of the poor customers because most of the clients come from remote areas where they can’t access bank networks (Wambari, 2009). The informal means have the disadvantages of the possibility of money getting lost or being used by the agents that transfer the money. Also, the informal methods lack privacy because the amount of transferred money will be known to those individuals delivering the money.

The entire membership of the organization including top leaders should have a deeper understanding of the strategy of the organization. Also, the entire membership of the organization needs a clear assessment of the environment. All team members within an organization should understand the association of the environment to the whole organization as well as the role of each member within the organization.

Based on the findings, the researcher recommended that the money transfer companies need to be more diligent in environment scanning and be proactive in formulating strategies that meet and pre-empt any anticipated adverse changes spinning out of their operating environment. As the money transfer companies increase their branch and agent network, there is a need to enhance their effectiveness in these outlets to ensure full resource utilization. This would ensure depth of penetration as opposed to breadth.

Suggestion for Future Research

The researcher suggested that a replicate study should be done on commercial banks in Kenya. This would establish the strategic responses by commercial banks to the external environment. A similar study with a larger sample should be done to validate the findings of the study. The study limited itself to time and scope. This necessitated a sample of 16 money transfer companies in Kenya. This population was too small and might not necessarily depict some of the unique features of all the money transfer companies operating in Kenya since a lot of information might have been left out. Therefore, the results obtained in this study might not be conclusive and thus unreliable and inaccurate for decision making.

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